e·on | U.S.

RECEIVED

JAN 06 2010

PUBLIC SERVICE COMMISSION

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

E.ON U.S. LLC
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Rick E. Lovekamp
Manager - Regulatory Affairs
T 502-627-3780
F 502-627-3213
rick.lovekamp@eon-us.com

January 6, 2010

RE: ***APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL OF PURCHASED POWER AGREEMENTS AND RECOVERY OF ASSOCIATED COSTS***
CASE NO. 2009-00353

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and eight (8) copies of the Response of Louisville Gas and Electric Company and Kentucky Utilities Company to the Joint Intervenors' Initial Data Request dated December 21, 2009, in the above-referenced matter.

Also enclosed are an original and ten (10) copies of a Petition for Confidential Protection regarding certain information provided in response to Question No. 4 and Question No. 20.

Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND	)	
ELECTRIC COMPANY AND KENTUCKY	)	**CASE NO.**
UTILITIES COMPANY FOR APPROVAL OF	)	**2009-00353**
PURCHASED POWER AGREEMENTS AND	)	
RECOVERY OF ASSOCIATED COSTS	)	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY
TO JOINT INTERVENORS' INITIAL DATA REQUEST
DATED DECEMBER 21, 2009

FILED: JANUARY 6, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of E.ON U.S. Services, Inc., and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Lonnie E Bellar
Lonnie E. Bellar

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 5th day of January 2010.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Douglas Keith Schetzel**, being duly sworn, deposes and says that he is Director of Business Development for E.ON U.S. Services, Inc., and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Douglas Keith Schetzel

Douglas Keith Schetzel

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 5th day of January 2010.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **Charles R. Schram**, being duly sworn, deposes and says that he is Director – Energy Planning, Analysis and Forecasting for E.ON U.S. Services, Inc., and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Charles R Schram
Charles R. Schram

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 6th day of January 2010.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Charles Anthony Freibert**, being duly sworn, deposes and says that he is Director of Marketing for E.ON U.S. Services, Inc., and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Charles Anthony Freibert

Charles Anthony Freibert

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 5th day of January 2010.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 1

Witness: Lonnie E. Bellar / Douglas Keith Schetzel

Q-1. State why the companies entered into the contracts prior to obtaining PSC approval.

A-1. Until the Joint Applicants and Invenergy executed the Power Purchase Agreements ("PPAs"), there were no agreed contractual terms and conditions to propose to the PSC, and Invenergy was under no obligation to reserve capacity for the Companies pending PSC approval. In order to ensure that PSC approval was obtained prior to commencing delivery of the wind energy, a requirement for PSC approval was addressed as a condition precedent in the PPAs.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 2

Witness: Douglas Keith Schetzel

Q-2. If the PSC does not grant approval, or if the companies on their own part decide to not pursue the contracts, do the contracts contain any type or sort of penalty clause requiring the companies to pay the owners of the wind farms and/or the transmission regulators / regional ISOs?

a. If so, please provide any and all amount(s).
b. If so, identify whether the companies will pass those costs to their shareholders, or their ratepayers.

A-2. PSC approval is a condition precedent. All conditions precedent, including PSC approval and satisfactory transmission service arrangements, must be satisfied prior to commencing power purchases under the PPAs. The Companies do not plan to pursue the PPAs unless all the conditions precedent are satisfied.

a. Not applicable.
b. Not applicable.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 3

Witness: Lonnie E. Bellar / Counsel

Q-3. Please state whether the companies believe the proposed expenditures at issue are unanticipated. State each fact upon which the company relies in making that conclusion.

A-3. Yes. Proposed expenditures for energy under the wind power contracts would be "unanticipated" because the cost of the proposed wind power contracts would vary depending on how much the wind blows, which the Companies cannot anticipate with certainty. Though the price of energy under the contracts is fixed and known, the quantities the Companies would have to purchase cannot be anticipated precisely because of the unpredictability of the wind. Thus, the unpredictable nature of the wind would make the Companies' energy costs under the wind power contracts "unanticipated."

Indeed, there is another layer of uncertainty concerning the wind power contracts that would make the overall cost of energy from Grand Ridge I and IV even more "unanticipated," namely the cost and availability of transmission to transport energy from Grand Ridge I and IV to the Companies' system. As discussed in the Companies' Application and the Testimony of Lonnie E. Bellar, the Companies will bear the cost of transmission, which can vary widely due to market conditions and transmission constraints in the PJM footprint (where Grand Ridge I and IV reside).[1] Also, the contracts oblige the Companies to pay for the power the Projects generate, regardless of whether transmission conditions allow actual delivery of the energy to the Companies' system.[2] These uncertain transmission costs and conditions further support characterizing the total energy costs under the wind power contracts as "unanticipated."

---

[1] Application at 8-9; Testimony of Lonnie E. Bellar at 6-7.

[2] Application at 10; Bellar Testimony at 6.

**LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY**

**Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009**

Case No. 2009-00353

Question No. 4

Witness: Lonnie E. Bellar / Charles R. Schram

Q-4. Please state whether the companies believe that prices for the wind-generated power it intends to purchase under the proposed contracts are fluctuating. State each fact upon which the company relies in making that conclusion. Please provide by year over the 20 year contract term the forecasted costs under the contract for: 1) the wind power, 2) the transmission expense, and 3) any other associated cost(s).

A-4. Yes. Because the proposed wind power contract energy costs would "fluctuat[e]" for the same reasons they would be "unanticipated"—indeed, it is because they would fluctuate that they would be unanticipated—please see the Companies response to Question No. 3 of this Data Request.

The per-unit price for wind energy under the proposed contract is certain – the starting (2010) level is fixed, as is the applicable annual indexation rate.

The second component of the delivered cost – the transmission reservation expense – is subject to periodic review by the RTO, however transmission tariffs have typically remained fairly stable over time. The Companies believe it is reasonable to assume indexation of this cost at the general rate of inflation.

The third component of the total delivered cost of wind energy is the transmission congestion cost: the difference between the locational marginal price (LMP) at the point of generation input and the LMP at the interconnection to the LG&E/KU system. In the short term, this cost is affected by system constraints associated with unit and line outages. Over the longer term it is a function of the configuration of both load and generation developments across the system. Historical experience with locational marginal pricing indicates the potential for significant short-term volatility with regard to this component of transmission cost. In principle, however, the very purpose of this pricing mechanism is to encourage appropriate siting of generation and transmission capacity with respect to load requirements, reducing or eliminating excessive LMP differentials.

The table below outlines the annual contract terms for wind energy and our assumptions regarding transmission costs.

Contract Year	Expected contract volume (GWh)	Contractual energy rate ($/MWh)	Transmission reservation ($/MWh)	Congestion cost (LMP spread) ($/MWh)	Delivered energy cost ($/MWh)	Contract cost ($M)
1	295	[redacted]	$7	$2	[redacted]	[redacted]
2	295	[redacted]	$7	$2	[redacted]	[redacted]
3	295	[redacted]	$8	$2	[redacted]	[redacted]
4	295	[redacted]	$8	$2	[redacted]	[redacted]
5	295	[redacted]	$8	$2	[redacted]	[redacted]
6	295	[redacted]	$8	$2	[redacted]	[redacted]
7	295	[redacted]	$8	$2	[redacted]	[redacted]
8	295	[redacted]	$8	$2	[redacted]	[redacted]
9	295	[redacted]	$8	$2	[redacted]	[redacted]
10	295	[redacted]	$8	$2	[redacted]	[redacted]
11	295	[redacted]	$8	$2	[redacted]	[redacted]
12	295	[redacted]	$8	$2	[redacted]	[redacted]
13	295	[redacted]	$8	$2	[redacted]	[redacted]
14	295	[redacted]	$8	$2	[redacted]	[redacted]
15	295	[redacted]	$8	$2	[redacted]	[redacted]
16	295	[redacted]	$9	$2	[redacted]	[redacted]
17	295	[redacted]	$9	$2	[redacted]	[redacted]
18	295	[redacted]	$9	$2	[redacted]	[redacted]
19	295	[redacted]	$9	$2	[redacted]	[redacted]
20	295	[redacted]	$9	$2	[redacted]	[redacted]

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 5

Witness: Lonnie E. Bellar / Counsel

Q-5. Please state whether entering the proposed contracts is necessary to avoid bankruptcy or material impairment to the companies' credit or operations.

A-5. No. Entering into the proposed wind contracts is not necessary for the Companies to avoid bankruptcy or material impairment to their credit or operations; however, though a threat to the solvency of a utility may be a sufficient condition for approving a surcharge mechanism outside a base rate proceeding, it is not a necessary condition. As the Kentucky Court of Appeals wrote in *Stumbo*:

> What can be gleaned from those cases approving fuel adjustment clauses and *National-Southwire* is that each court's approval was based on the unique facts of the case. The subject of the rate increase was not amenable to review via a general rate increase; thus, to set a "fair, just, and reasonable" rate required by statute, the courts have held the authority to approve such rates outside the general rate procedure to be within the regulatory commission's implied authority.
>
> The present controversy [concerning Duke Energy Kentucky's Accelerated Main Replacement Rider] does not involve capital expenditures that are unanticipated, fluctuating, **<u>or</u>** beyond Duke's control, **<u>or</u>** threaten its solvency.[3]

---

[3] *Kentucky Public Service Commission and Duke Energy Kentucky Inc., f/k/a The Union Light, Heat and Power Company, v. Commonwealth of Kentucky, ex rel., Greg Stumbo,* Case No. 2007-CA-001635-MR, November 7, 2008, at 11 (not to be published) (emphases added). "*National-Southwire*" is *National-Southwire Aluminum Co. v. Big Rivers Elec. Corp.*, 785 S.W.2d 503 (Ky. App. 1990).

The court's language is clear that there are at least two kinds of situations in which Kentucky's appellate courts have recognized the Commission's authority to approve cost recovery surcharge mechanisms outside of base rate cases and where there is not explicit statutory authority for a surcharge: (1) fuel adjustment clauses (i.e., where costs are unanticipated, fluctuating, and (2) beyond a utility's control); and situations in which a utility's solvency is in peril and there is not sufficient time for a base rate proceeding to remedy the problem (e.g., *National-Southwire*). The Companies respectfully submit that the wind power contracts fit the former, not the latter, category of costs appropriate for recovery by surcharge established outside of a base rate case proceeding.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 6

Witness: Lonnie E. Bellar / Charles R. Schram

Q-6. Please state whether the power to be purchased under the proposed contracts is necessary in order to insure the safe, reliable and adequate provision of electricity to the companies' customers. For purposes of this answer please provide the forecasted reserve margins over the next 20 years for LG&E and KU with and without the wind power contracts.

A-6. The power the Companies propose to purchase under the wind power contracts is not necessary to provide a "safe, reliable, and adequate" amount of electricity to its customers under extant and applicable environmental regulations; however, the Companies respectfully submit that the applicable standard is not what is absolutely necessary to provide electric service today, taking no account of highly likely future conditions. Please see the response of LG&E and KU to KPSC Question No. 6.

The Companies further note that if a federal or state renewable portfolio standard of some kind becomes applicable to the Companies, the "safe, reliable, and adequate" provision of electricity may likely require the provision of at least some electricity from renewable sources, such as would be available under the wind power contracts.

Given their small size, the wind contracts offer no significant firm capacity to the system, and therefore have no material impact on reserve margin. The logic of these transactions rather relates to the prudency of a strategy of measured diversification of supply in the face of upcoming challenges associated with CO_2 emissions mitigation. Although currently not part of a strictly 'least cost' supply portfolio, potential legislative changes could quickly change the relative competitiveness of different supply sources – in favor of wind and other renewables - and in such circumstances prior experience in managing renewables contracts could prove valuable.

The most recent comprehensive assessment of the Companies' projected reserve margin was provided in the 2008 IRP (Volume 1, Section 8 – Resource Assessment, Tables 8(4) (a)&(b)).

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 7

Witness: Charles R. Schram

Q-7. Assuming the companies receive regulatory approval, and assuming they proceed with the contracts, please state whether the companies will incur any additional maintenance costs to their combined fleets when wind-generated power flows into their transmission / distribution grids. What additional costs will the company incur in order to insure reliability in the event the companies proceed with the contracts?

A-7. The wind contracts impose no additional maintenance costs on the Combined Companies' system. Because the energy available from wind contracts is variable, adequate responsive (thermal) back-up must be maintained to balance load. This however is not an issue in this instance given the very limited size of the wind contracts relative to the scale of the Companies' load requirement and generating capability.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request Dated December 21, 2009

Case No. 2009-00353

Question No. 8

Witness: Charles Anthony Freibert / Lonnie E. Bellar

Q-8. What type and amount of start-up costs will the companies incur if they proceed with the proposed contracts? How and when do the companies intend to pass these costs on to their customers?

A-8. The type and estimated amount of start-up costs are summarized in the categories listed below:

1. Interconnection of the wind generators from Grand Ridge I and Grand Ridge IV to the grid: Invenergy's costs for the interconnection to the PJM grid and associated metering are incorporated into the price per MWH for wind energy.
2. Request and reserve firm point-to-point ("PTP") transmission service to bring wind energy from Grand Ridge I and Grand Ridge IV interconnection with PJM into the LGEE BA: The Companies have paid a $50,000 deposit for each of two requests for PJM PTP transmission service (Grand Ridge 1 in the amount of 99MWs, and Grand Ridge IV in the amount of 11MWs). A third, earlier request for transmission service for Grand Ridge I was studied for a total net cost of $4,763.31. Depending on the amount of work required by PJM to complete the studies, the cost could range from a few thousand dollars to $50,000.00.
3. Any PJM transmission upgrade costs for PJM PTP service: PJM transmission upgrade costs, if any, will not be known until PJM completes its studies. If these upgrade costs are not acceptable to the Companies, they are entitled to terminate the PPAs.
4. Real time monitoring of wind generation at Grand Ridge Phase I and Grand Ridge Phase IV: A Remote Terminal Unit (RTU) will need to be installed by the Companies at the Grand Ridge facility in order to monitor the amount of wind energy generated by Grand Ridge. The one-time cost of this RTU and its installation will be approximately up to $20,000.00. Associated with this RTU is a digital telecommunication path that will need to be reserved under contract from ATT or another service provider. This service will have an initial connection fee up to approximately $5,000.00, as well as a monthly fee of approximately $4,000.00.

5. Software upgrades to the LG&E/KU Energy Management System (EMS) to accommodate real time monitoring: The EMS system used by LG&E/KU to monitor and control real time the economic dispatch of generation will need to be upgraded to accommodate the wind generation. These upgrades will include computer display upgrades and Automatic Generation Control software upgrades, at a cost of approximately $5,000.00.
6. Additional start-up costs to consider: Upgrades to internal analytical and accounting tools associated with generation dispatch, system logs, and contract tracking will be required at a cost of about $6,000.00.

Start-up costs will be recovered through base rates.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 9

Witness: Charles R. Schram

Q-9. Please provide the companies' best estimates for locational marginal pricing ("LMP") transmission costs for each year of the twenty (20) year period of the proposed contracts.

A-9. A projection of congestion costs in the PJM system would require a reliable projection of the long-term trajectory of load growth and of both the mix and location of generation capacity additions across the system (including other wind power developments). These drivers of congestion costs are subject to numerous uncertainties.

Over the last year, based on historical LMP data, the congestion-related component of transmission cost over the contract path - the LMP spread between the generation injection point and the LG&E/KU interconnection point - has averaged around $6/MWh. This is a gross value which does not recognize the value to the transmission holder of allocated Financial Transmission Rights, which is intended to cover the greater part of the congestion risk. Based on this data the Companies' have estimated projected congestion costs – net of FTR revenue - in response to Question No. 4.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 10

Witness: Charles R. Schram

Q-10. State to what extent the companies investigated whether wind-generated power can be hedged. Do any other utilities utilizing wind-generated power employ any hedging tools? Discuss in detail.

A-10. The companies actively investigate opportunities to mitigate financial risk to ratepayers associated with energy project developments and transactions. The sources of risk relate to uncertainties regarding the volume and the cost (price) of energy from a project or contract.

First, regarding the *volume* uncertainty associated with wind power developments, the Companies have structured the contract such that the developer bears all the financial risk associated with an uncertain generation profile. The Companies pay only for energy delivered.

Second, regarding cost (*price*) uncertainty, it should be noted that the commercial terms of the proposed wind contract – at least for the energy component – are certain (the unit cost is known over the full term of the contract).

There is price risk associated with the (potential) congestion component of the transmission cost. However, within RTOs such as PJM, holders of transmission reservations are entitled to Financial Transmission Rights which may provide a partial hedge against fluctuating congestion costs.

The Companies are not familiar with other utilities' strategies for risk mitigation specifically with regard to wind power contracting.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 11

Witness: Charles R. Schram

Q-11. Assuming the PSC grants approval for the contracts, and assuming the companies proceed with the contracts, for each year of the 20 year contracts what percentage of the companies' combined total electric service costs will be attributed to this wind-generated power?

A-11. The Companies' total electric service cost is reflected in its retail tariffs which are designed to recover prudently-incurred capital service costs as well as fuel and other operating costs. In 2009, revenue associated with electricity sales is projected to total just under $2.0 billion. As noted in response to Question No. 4, the projected annual cost of the proposed wind power contract will start at $24 million in 2010 (annualized). While the Wind Power Contracts account for approximately 1% of the total electric service cost, their $24 million annualized costs is significant when compared to the earnings required to earn a reasonable return on equity to attract investors.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 12

Witness: Charles R. Schram

Q-12. Assuming the PSC grants approval for the contracts, and assuming the companies proceed with the contracts, will the wind-generated power be used for peak power, base load or both?

A-12. Wind power will be taken whenever it is available.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 13

Witness: Charles R. Schram

Q-13. Provide the current differential for prices the companies charge for on-system sales as opposed to amounts it receives for off-system sales.

A-13. The following (provisional) data, by Utility, relates to the 12-month period ending November 30, 2009:

Sales & Revenue – 12 months ending 11/30/09	**Combined Companies**
Retail Sales	
Volume (GWh)	29,662
Revenue ($ millions)	1,979.6
Average unit revenue (cents/kWh)	6.7
Off-System Sales	
Volume (GWh)	1,015
Revenue ($ millions)	41.2
Average unit revenue (cents/kWh)	4.1

[1] Data excludes KU sales to Kentucky municipal customers

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 14

Witness: Charles R. Schram

Q-14. Confirm that in the event the PSC grants approval for the contracts, and assuming the companies proceed with the contracts, when the wind-generated power enters the companies' combined transmission / distribution grids, that power being generated by the companies' own generation fleet in excess of its customers' needs will be sold in off-system sales.

A-14. The Companies seek to exercise all economic opportunities to make off-system sales from generating capacity in excess of their native load requirements. The availability of wind energy will not *automatically* increase off-system sales by an equivalent amount. In 2009, for example, the Companies have made minimal sales off-system during off-peak periods, because the market price has not often been sufficiently high enough to exceed the dispatch cost. In such an instance, the availability of wind energy would make little or no difference to the off-system sales position. Furthermore, even under favorable market price conditions, the inherent 'unpredictability' of the wind resource further complicates selling the power off-system.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 15

Witness: Charles R. Schram

Q-15. State why the companies did not address the wind-generated power contracts more fully in their most recent IRP filing.

A-15. The filing of the 2008 IRP pre-dated any discussions relating to the proposed wind contracts. The 2008 IRP determined wind resources were not a component of the least-cost generation expansion plan for the Companies.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 16

Witness: Charles R. Schram

Q-16. Will the proposed contracts, which are subject to PJM restrictions and tariffs, cause or require the EON companies to become members of PJM just as they once were with MISO? If so, what types and amount of costs will the companies incur, and by whom will those costs be borne?

A-16. No. Execution of these contracts imposes no obligation on the Companies to join PJM as transmission owning members.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 17

Witness: Charles R. Schram

Q-17. Will or could the PJM economic dispatch rules take precedence over the contracts? Could any PJM rules supersede the terms of the proposed contracts? If so, could there be instances in which PJM will dictate that the wind farms' generation be directed elsewhere? If so, what types of costs will the companies incur to replace that power?

A-17. No. Under the terms of the transmission agreement which would be concluded with PJM, the full 109.5 MW capacity of the resources represented by these contracts is excluded from the capacity resources available to PJM. The power associated with the contracts will be exported from PJM using a 'pseudo-tie' configuration, and PJM will have no right to interrupt this flow other than in the event of system congestion.

In the unlikely event of any interruption of power caused by emergency actions taken by PJM, the Companies are neither dependent on this capacity to maintain the reliability of supply to their native load, nor is there any economic 'penalty' incurred in the provision of replacement energy (the incremental cost of generation from the utilities' conventional (thermal) generation resources is lower than the cost of energy provided under the wind power contracts).

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 18

Witness: Douglas Keith Schetzel

Q-18. Is the utility from which the EON companies intend to purchase the wind-generated power a merchant, or does it have some regulated sales? If so, identify the agencies that regulate it. Will the laws of that jurisdiction have any control so as to supersede the supposed "firm supply" of this farm under the proposed contracts with EON?

A-18. Invenergy is an independent power producer that sells most of its energy under long-term agreements similar to the proposed contracts. The company does not have any regulated sales. As such, there are no laws that will supersede the firm supply of this farm under the proposed contracts.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 19

Witness: Douglas Keith Schetzel

Q-19. State whether FERC will have to approve any portion(s) of the proposed contracts. If so, what could their decision(s) entail, and how long will those decisions take? Will there be any future ramifications if these contracts are subject to FERC?

A-19. As the buyers under the PPAs, there are no FERC approvals required of the Companies. It is the Companies' understanding that Invenergy intends that the PPAs will be service agreements under its market based rate sales tariff, and therefore, the PPAs need not be approved as stand-alone agreements with respect to Invenergy. At this time, considering current regulations, the Companies do not anticipate any future ramifications on the PPAs as a result of FERC's jurisdiction.

LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY

Response to Joint Intervenors' Initial Data Request
Dated December 21, 2009

Case No. 2009-00353

Question No. 20

Witness: Counsel

Q-20. Please provide all memos, emails, or other documents in the possession of the Companies which discuss, describe or relate to the wind power contracts.

A-20. To the extent that the request for the production of documents is overly broad and unduly burdensome and seeks the production of documents that are irrelevant to the issues in this case or are privileged, objections are made to the request. Without waiver of these objections, please see the over 600 documents, produced in electronic format, that have been identified within the time permitted for this response and that are responsive to the request. Counsel for LG&E and KU is continuing to undertake a reasonable and diligent search for other such documents and will seasonably supplement this response through a rolling production of documents until the hearing in this case. Please note that the Companies are seeking confidential protection for portions of certain documents being provided hereunder. Also a privilege log concerning documents responsive to this request, but which the Companies are not providing on the ground that they are exempt from production will be subsequently provided in a supplemental response. This log will be supplemented as appropriate with the production of other documents or completion of the search. Counsel for LG&E and KU will update counsel for the AG and KIUC on a weekly basis on the status of the production of further documents.