



PPL companies

Jeff DeRouen  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40601

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PUBLIC SERVICE  
COMMISSION

LG&E and KU Energy LLC  
State Regulation and Rates  
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June 18, 2012

**RE:** *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity and Site Compatibility Certificate for the Construction of a Combined Cycle Combustion Turbine at the Cane Run Generating Station and the Purchase of Existing Simple Cycle Combustion Turbine Facilities from Bluegrass Generation Company, LLC in LaGrange, Kentucky*  
**Case No. 2011-00375**

Dear Mr. DeRouen:

On May 8, 2012, our counsel sent a letter to you enclosing a May 4, 2012 Federal Energy Regulatory Commission ("FERC") order concerning Louisville Gas and Electric Company and Kentucky Utilities Company's proposed acquisition of the Bluegrass Generation Company's combustion turbines in Lagrange, Kentucky. (The proposed acquisition is part of what the Kentucky Public Service Commission approved in its May 3, 2012 final order in Case No. 2011-00375.) Our counsel's letter noted that the Companies were going to review the FERC order and apprise you of any developments.

I am writing to you to inform the Commission that the Companies have carefully reviewed the FERC order and have decided not to proceed with the Bluegrass acquisition because of the significant uncertainty the FERC order creates. This decision does not create a near term capacity shortfall for the Companies since the proposed acquisition, while anticipated to have closed in 2012, was to support future needs.

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The order conditions approval of the acquisition on the Companies' submitting by July 3, 2012, a proposed market-power mitigation proposal, which FERC would then have to review and accept or reject, which could necessitate additional possible mitigation measures of unknown cost and duration. The order creates a second layer of significant uncertainty by requiring the Companies to make a second compliance filing no later than December 31, 2016, to re-examine market-power issues related to the Bluegrass units, which could result in requiring additional mitigation measures, again of unknown cost and duration.

In addition to the uncertainties the FERC order creates concerning the ultimate cost of obtaining final approval for the acquisition, the order markedly extends the regulatory process necessary to obtain truly final approval. Also, and importantly, mitigation would mean that the ratepayers might not have access to the Bluegrass units when and if needed for an unknown period of time.

Circumstances may yet eventuate to make purchasing the units or entering into another kind of arrangement with Bluegrass Generation economical for our customers. But at present, it is prudent for the Companies and their customers to terminate the current purchase agreement with Bluegrass Generation and to consider further how best to meet our customers' future needs.

We would be glad to discuss this with you and your staff if you would like additional information on how the Companies arrived at this decision.

Sincerely,

A handwritten signature in black ink, appearing to read "Lonnie E. Bellar". The signature is fluid and cursive, with the first name being the most prominent.

Lonnie E. Bellar

cc: Parties of Record