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David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

November 12, 2009

PARTIES OF RECORD

Re: Case No. 2009-00353

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Richard Raff at 502/564-3940, Extension 263.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen
Executive Director

RR/ew

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Richard Raff

DATE: November 12, 2009

SUBJECT: Agenda Memo
Case No. 2009-00353
Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Purchased Power Agreements and Recovery of Associated Costs

Pursuant to the Staff notice, an informal conference was held at the Commission's offices on October 29, 2009 for the purposes of establishing a procedural schedule, to process the application for approval of wind contracts, and to discuss the pricing provision and transmission agreements relating to those contracts. A list of the attendees is attached hereto.

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") stated that they intended to file a petition for rehearing of the Commission's October 21, 2009 Order in this case denying their request to establish a rate surcharge for the recovery of the costs associated with the purchase of wind power. LG&E and KU further stated that they will cancel the two proposed wind power contracts if the Commission does not authorize a surcharge for the recovery of the costs to be incurred under those contracts, including the cost of transmission service.

LG&E and KU stated that in 2007 they solicited bids for renewable energy and received 15 responses. After further analysis and negotiations, a wind project located in Illinois was selected. LG&E and KU explained that the proposed seller of wind power was Invenergy, an independent power company, and that the transaction would be with a special purpose entity which has no parental financial guarantees. The contracts will include take or pay provisions and, if power is undeliverable due to transmission constraints, LG&E and KU would still be obligated to pay over \$70 per MWh plus production tax credits and a tax gross-up amount. Of the total purchase of 110 MW, LG&E/KU anticipate that the annual capacity factor will be approximately 31 percent, with the peak period capacity being approximately 13 MW. LG&E/KU project that, over the life of the 20-year wind power contracts, the cost in nominal dollars will be \$525 million, with the first year's costs estimated to be \$23 million. A copy of the handout provided by LG&E and KU is attached to this memo but not to the copies.

cc: Attendance list only

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2009-00353

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND
KENTUCKY UTILITIES COMPANY FOR APPROVAL OF PURCHASED
POWER AGREEMENTS AND RECOVERY OF ASSOCIATED COSTS

SIGN IN

October 29, 2009

PERSON	REPRESENTING
RICHARD RAFF	KY PSC - LEGAL
Jeff Shaw	KY PSC - FIN. ANALYSIS
Leah Faulkner	PSC - FA
Daryl Newby	PSC - F/A
Elio Russell	PSC
Robert Conroy	E.ON
RICK LOVEKAMP	E.ON U.S.
Lonnie Bellar	E.ON U.S.
Douglas Schetzel	E.ON US
Allyson Sturgeon	E.ON US
Kushil R. Pignani	SPD for LGTE/KU
Mike Kortz	KUC
Larry Cook	OAG

e.ON

| U.S.

Case No. 2009-00353

Application of Louisville Gas and Electric
Company and Kentucky Utilities Company for
Approval of Purchased Power Agreement and
Recovery of Associated Costs

Informal Conference

October 29, 2009

RFP Process and Results

- RFP released on July 9, 2007 seeking
 - Up to 30 year supply of capacity / energy from renewable resources
 - Minimum 2 MW capacity, up to 750 MW
- Fifteen responses received to the RFP 2007
 - 1 Hydro, 4 Wind, 4 Solar (PV), 6 Biomass
 - Invenergy Grand Ridge wind proposal received in January 2009
- Follow-up interviews held with all respondents
- Short list developed in early 2008
- Contract discussions held throughout 2008 with a wind farm developer (Indiana) and 1 landfill gas supplier (Kentucky)
 - Wind farm developer withdrew its offer in January 2009
 - Contract discussions continue with landfill gas supplier
- Contract negotiations commenced with Invenergy Grand Ridge in February 2009
 - Contract executed on August 25, 2009, subject to PSC approval

Federal RPS Legislation Progressing Through Congress

- Waxman-Markey passes in the House on June 26, 2009
 - Requires 6% of retail sales from renewable sources or efficiency by 2012
 - Requires 20% of retail sales be from renewable sources or efficiency by 2020
 - CO₂ emissions to be reduced by 17% of 2005 emissions by 2020
- Climate bill debate begins in the Senate, Environmental and Public Works Committee begins on September 30, 2009
 - Boxer bill similar to Waxman-Markey
 - CO₂ emissions to be reduced by 20% of 2005 emissions by 2020
- UN Framework Convention on Climate Change to meet in Copenhagen in December
 - Set multi-national emission targets for post Kyoto period (begins in 2012)

Proposed Wind Power Contracts

- Pricing Provisions
 - Take or pay for all energy produced
 - Payment if energy is curtailed due to transmission constraints
- Transmission Agreements
 - Firm point-to-point transmission service
 - Locational Marginal Pricing impacts