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March 5, 2010

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PUBLIC SERVICE  
COMMISSION

**VIA HAND DELIVERY**

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

**RE: Louisville Gas and Electric Company and Kentucky Utilities Company 2009  
Application 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 ten copies of the Motions of Kentucky Utilities Company and Louisville Gas and Electric Company for Leave to File Rebuttal Testimony and to Submit the Case for Decision on the Record and the attached Rebuttal Testimony of Lonnie E. Bellar in the above-referenced matter. Please confirm your receipt of these filings by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions, please do not hesitate to contact me.

Yours very truly,

W. Duncan Crosby III

WDC:ec

Enclosures as mentioned  
cc: Parties of Record

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**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In re the Matter of:**

**LOUISVILLE GAS AND ELECTRIC )  
COMPANY AND KENTUCKY UTILITIES )  
COMPANY 2009 APPLICATION FOR )  
APPROVAL OF PURCHASED POWER )  
AGREEMENTS AND RECOVERY OF )  
ASSOCIATED COSTS )**

**CASE NO. 2009-00353**

**MOTIONS OF KENTUCKY UTILITIES COMPANY AND  
LOUISVILLE GAS AND ELECTRIC COMPANY  
FOR LEAVE TO FILE REBUTTAL TESTIMONY  
AND TO SUBMIT THE CASE FOR DECISION ON THE RECORD**

Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (collectively, “Companies”) hereby move the Public Service Commission (“Commission”) to grant the Companies leave to file in this case the attached Rebuttal Testimony of Lonnie E. Bellar. (The testimony is Attachment 1 hereto.) As the applicants in this proceeding, the Companies bear the burden of proof, and therefore respectfully request the opportunity to rebut several of the claims made in the testimony submitted by Lane Kollen, the witness for the Joint Intervenors, the Attorney general and the Kentucky Industrial Utilities Customers, Inc. The Companies do not believe that allowing such rebuttal testimony will prejudice any parties to this proceeding, particularly because there are no remaining items on the procedural schedule set out in the Commission’s November 25, 2009 Order herein.

The Companies further respectfully move the Commission to decide all of the issues presented in this case on the basis of the record as filed, including the attached Rebuttal Testimony of Lonnie E. Bellar. As noted above, the procedural schedule the Commission prescribed in its November 25, 2009 Order in this proceeding has now come to an end. The Commission Staff and the Joint Intervenors have asked of the Companies, and have received

responses to, multiple sets of data requests, and the Joint Intervenors have now responded to the Companies' data requests. The Commission held an oral argument on rehearing concerning the Companies' requested surcharge mechanism on December 16, 2009. The Joint Intervenors have submitted testimony, and the Companies, as the parties bearing the burden of proof in this case, have now submitted rebuttal testimony. On the basis of the record as it stands, including the attached rebuttal testimony, it appears there are no material factual disputes remaining; all that remains is for the Commission to consider and weigh the evidence, and to decide the merits of the issues in this case. For that reason, the Companies do not believe that an evidentiary hearing is necessary to complete the record of this case. The Companies therefore respectfully request the Commission to issue an order deciding the issues in this proceeding on the record as it now stands (with the addition of the rebuttal testimony submitted herewith).

The Companies respectfully urge the Commission to issue such an order expeditiously. Time is very much of the essence concerning the wind power contracts at issue in this proceeding. If the "conditions precedent" stated in the contracts, including obtaining approval from the Commission that is acceptable to the Companies, are not met by March 23, 2010, the Companies will, as prudent managers, consider whether to exercise their right to terminate the contracts.<sup>1</sup> The Companies will advise the Commission of their decision in any event. For that reason, the Companies urge the Commission to approve the proposed Invenergy wind power contracts and the Renewable Resource Clause by March 23, 2010.

**WHEREFORE**, the Companies respectfully move the Commission for leave to file in the record of this case the attached Rebuttal Testimony of Lonnie E. Bellar. The Companies further respectfully request that the Commission decide all issues in this proceeding on the basis

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<sup>1</sup> See Application at 10; Testimony of Lonnie E. Bellar at 8; Transcript of Evidence at 20, 46, and 62 (Dec. 16, 2009); Rebuttal Testimony of Lonnie E. Bellar at 14-15.

of the record as it now stands, including the attached Rebuttal Testimony of Lonnie E. Bellar, and issue an order deciding all matters in this proceeding, including the Companies' request for surcharge recovery of all of the costs associated with the wind power contracts at issue herein, by March 23, 2010.

Dated: March 5, 2010

Respectfully submitted,



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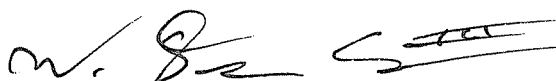
Counsel for Louisville Gas and Electric  
Company and Kentucky Utilities Company

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and correct copy of the foregoing Motions of Kentucky Utilities Company and Louisville Gas and Electric Company for Leave to File Rebuttal Testimony and to Submit the Case for Decision on the Record was served on the following persons on the 5th day of March, 2010, by United States mail, postage prepaid:

Michael L. Kurtz  
Boehm Kurtz & Lowry  
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Dennis Howard, II, Esq.  
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Frankfort, KY 40601



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Counsel for Louisville Gas and Electric Company  
and Kentucky Utilities Company

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**LOUISVILLE GAS AND ELECTRIC )  
COMPANY AND KENTUCKY UTILITIES )  
COMPANY 2009 APPLICATION FOR )  
APPROVAL OF PURCHASED POWER )  
AGREEMENT AND RECOVERY OF )  
ASSOCIATED COSTS )**

**CASE NO. 2009-00353**

**REBUTTAL TESTIMONY OF  
LONNIE E. BELLAR  
VICE PRESIDENT, STATE REGULATION AND RATES  
E.ON U.S. SERVICES, INC.**

**Filed: March 5, 2010**

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

2 A. My name is Lonnie E. Bellar. I am the Vice President, State Regulation and Rates for  
3 Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company  
4 (“KU”) (collectively, “the Companies”), and am an employee of E.ON U.S. Services  
5 Inc., which provides services to the Companies. My business address is 220 West Main  
6 Street, Louisville, Kentucky. I have provided pre-filed direct testimony in this  
7 proceeding, and have sponsored the Companies’ responses to a number of data requests  
8 from the Commission Staff and the Joint Intervenors, the Attorney General (“AG”) and  
9 the Kentucky Industrial Utility Customers, Inc. (“KIUC”).

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to summarize, respond to, and place in the  
12 proper context Lane Kollen’s February 10, 2010 testimony in this proceeding.

13 **Q. Please summarize Mr. Kollen’s testimony.**

14 A. Mr. Kollen’s testimony makes three basic assertions: (1) the wind power contracts are not  
15 necessary to serve the Companies’ customers; (2) the wind power contracts are not  
16 economical; and (3) the wind power contracts provide an “enhanced profit opportunity”  
17 to the Companies. All of these assertions are fundamentally flawed.

18 **I. IT IS PRUDENT AND REASONABLE FOR THE COMPANIES TO PLAN FOR,**  
19 **AND TO PROCURE THE MEANS TO COMPLY WITH, LIKELY FUTURE**  
20 **ENVIRONMENTAL REGULATIONS.**

21 **Q. What is the flaw in Mr. Kollen’s assertion that the wind power contracts are not**  
22 **needed to serve the Companies’ customers?**

23 A. The flaw in Mr. Kollen’s assertion that there is no need for the wind power contracts is  
24 not facially obvious; he states there is no existing state or federal legislative or regulatory  
25 requirement for such contracts, and the Companies do not currently need the energy to

1 supply their customers' current energy requirements. The Companies agree with these  
2 points; indeed, the Companies clearly stated as much in their application and testimony in  
3 this proceeding. So Mr. Kollen's flaw is not a factual error, but rather an error of  
4 omission.

5 What is lacking is that it would be imprudent for the Companies to respond only  
6 to *present* needs and requirements when it takes a considerable amount of time and effort  
7 to meet such needs. Similarly, it would be imprudent for the Companies not to acquire  
8 needed capacity and energy for their *expected* demand and energy requirements; acting  
9 prudently, the Companies use the data at their disposal to discern trends, make  
10 projections, and prepare to meet their customers' needs before those needs require more  
11 than the Companies can provide.

12 The Companies arrived at the wind power contracts by a similarly prudent route.  
13 When the Companies issued their renewable energy request for proposals ("RFP") in July  
14 2007, a number of different factors made that exploratory step a wise one. By that time  
15 23 states and the District of Columbia had enacted mandatory renewable portfolio  
16 standards ("RPSes"), and three other states had enacted non-binding RPS goals.<sup>1</sup> In  
17 Kentucky, then-Governor Fletcher's energy plan called for "policies that promote, but do  
18 not mandate, the use of renewable energy resources in Kentucky's electricity generation  
19 portfolio."<sup>2</sup> In response to the governor's plan and an executive order, the Commission  
20 issued a report stating the Commission's belief that "it is important to encourage utilities

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<sup>1</sup> See <http://www.dsireusa.org/library/includes/seeallincentivetype.cfm?type=RPS&currentpageid=2&search=Type>.

<sup>2</sup> Kentucky's Energy--Opportunities for Our Future: A Comprehensive Energy Strategy, Recommendation 18 (Feb. 7, 2005). Available at <http://governor.ky.gov/NR/rdonlyres/494E5F9E-5277-4EAD-9B21-7F0CE5CA235E/0/CompositEnergyReport.pdf>.



1 and other interested parties to work to expand the use of renewables.”<sup>3</sup> And the  
2 Commission Staff, following the Commission’s lead, expressed an interest in the  
3 Companies’ development of renewable energy: “In the next IRP filing, consistent with  
4 the Commission’s findings in Administrative Case No. 2005-00090, LG&E/KU are  
5 encouraged to fully investigate the potential for incorporating renewable energy into their  
6 portfolio of supply-side resources.”<sup>4</sup>

7 In view of all of these in-state and national developments, it was only prudent and  
8 reasonable for the Companies to begin making preparations on their customers’ behalf to  
9 include renewable resources in their energy mix. For that reason, the Companies issued  
10 their July 2007 renewable energy RFP even though they were not strictly required to do  
11 so at the time.

12 **Q. What developments, if any, after July 2007 caused the Companies to enter into the**  
13 **wind power contracts with Invenergy on August 25, 2009, in the absence of a strict**  
14 **requirement to do so?**

15 A. If it was prudent, on the basis of the legislative and regulatory developments I described  
16 above, for the Companies to issue their renewable energy RFP in July 2007, it was even  
17 more prudent to enter into the wind power contracts at issue in this proceeding. Consider  
18 the following developments that occurred between July 2007 and August 25, 2009, when  
19 the Companies executed the Invenergy contracts:

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<sup>3</sup> *In the Matter of an Assessment of Kentucky’s Electric Generation, Transmission, and Distribution Needs*, Admin. Case No. 2005-00090, Order Appx. A, “Kentucky’s Electric Infrastructure: Present and Future,” at 48 (Sept. 15, 2005).

<sup>4</sup> *In the Matter of: The 2005 Joint Integrated Resource Plan of Louisville Gas and Electric Company and Kentucky Utilities Company*, Case No. 2005-00162, Commission Staff Report at 24 (Feb. 15, 2006).

- 1           1. An additional six states enacted mandatory RPSes, and another three states  
2           enacted non-binding RPS goals.<sup>5</sup> Of the states near Kentucky, by August 25,  
3           2009, Ohio, Illinois, Maryland, Michigan, Missouri, North Carolina, and  
4           Pennsylvania had enacted mandatory RPSes, and Virginia and West Virginia  
5           had enacted RPS goals. Of those states, Ohio, Illinois, Michigan, Missouri,  
6           North Carolina, and West Virginia enacted their RPSes after July 2007.
- 7           2. At the national level, the November 2008 federal elections brought to power an  
8           administration with a clear “green” agenda, as well as a Congress generally  
9           thought to be amenable to such measures.
- 10          3. In November 2008, Governor Beshear, with the advice and assistance of the  
11          Energy and Environment Cabinet, released a report entitled *Intelligent Energy*  
12          *Choices for Kentucky’s Future: Kentucky’s 7-Point Strategy for Energy*  
13          *Independence*. The report included a proposed Renewable and Efficiency  
14          Portfolio Standard (“REPS”), which would require 25 percent of Kentucky’s  
15          energy needs in 2025 to be met by reductions through energy efficiency and  
16          conservation, and through the use of renewable resources.
- 17          4. On January 15, 2009, during the public hearing of the Companies’ most recent  
18          base rate cases, 2008-00251 and 2008-00252, the Commission indicated a “very  
19          keen interest in seeing renewables as a part of the [Companies’] portfolio of  
20          resources ....”<sup>6</sup>

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<sup>5</sup> See <http://www.dsireusa.org/library/includes/seeallincentivetype.cfm?type=RPS&currentpageid=2&search=Type>.

<sup>6</sup> *In the Matter of: Application of Kentucky Utilities Company for an Adjustment of Base Rates*, Case No. 2008-00251, *In the Matter of: Application of Kentucky Utilities Company to File Depreciation Study*, Case No. 2007-00565, *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates*, Case No. 2008-00252, *In the Matter of: Application of Louisville Gas and Electric Company to File Depreciation Study*, Case No. 2007-00564; Transcript of Evidence, Vol. II, at 23 ln. 23 – 24 ln. 4 (Jan. 15, 2009).

1           5. On June 26, 2009 the U.S. House of Representatives passed the Waxman-  
2           Markey Bill, HR 2454, which called for a 4.5% renewable energy requirement  
3           in 2012, climbing to a 15% renewable energy requirement by 2020. The bill  
4           further contained a cap-and-trade regime for greenhouse gases, including carbon  
5           dioxide.<sup>7</sup>

6           Entering into the wind power contracts, which the Companies selected through an RFP  
7           process to ensure competitive pricing, and which contained a regulatory approval  
8           requirement, was a prudent means of attempting to mitigate at least some of the cost  
9           increases that would likely follow the imposition of a mandatory RPS, particularly at the  
10          federal level (as I discuss further below). In the face of such clear trends toward the  
11          imposition of a federal or state RPS (or both), the Companies behaved rationally and in  
12          their customers' interests by entering into the wind power contracts and filing the  
13          application that initiated this proceeding.

14   **Q. Even granting that the Companies' actions so far have been reasonable and**  
15   **prudent, how can the Commission approve the wind power contracts and the**  
16   **Companies' requested surcharge recovery in the absence of an applicable federal or**  
17   **state RPS?**

18   A. This question gets to the heart of the matter, and on it Mr. Kollen errs. He says the  
19   Commission should not approve the wind power contracts because there is no presently  
20   applicable federal or state RPS requiring such approval, and the contracts are too costly  
21   to be approved in the absence of such a requirement. But the matter is not so simple.

22           The standard by which the Commission must determine whether to approve the  
23          wind power contracts is KRS 278.300(3), which asks whether an obligation, such as a

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<sup>7</sup> See H.R. 2454 , 111th Cong. (2009).

1 power purchase contract, “[1] is for some lawful object within the corporate purposes of  
2 the utility, [2] is necessary or appropriate for or consistent with the proper performance  
3 by the utility of its service to the public and will not impair its ability to perform that  
4 service, and [3] is reasonably necessary and appropriate for such purpose.” The  
5 Companies believe the wind power contracts, as a trial renewable effort, meet this three-  
6 part standard, because:

- 7 1. To the Companies’ knowledge, there is no law prohibiting their entry into the  
8 wind power contracts, and it is a corporate purpose of the Companies to provide  
9 service to their customers in a reasonable and prudent manner, such as by  
10 anticipating and preparing to reduce the financial impact of possible  
11 environmental requirements that appear likely to become law.
- 12 2. The Companies believe it is both “appropriate for ... [and] consistent with the  
13 proper performance by the utility of its service to the public” to hedge against  
14 the likelihood of increased future costs of environmental compliance. Entering  
15 into power purchase agreements like the wind power contracts is a rational  
16 means of hedging such risk. Though the wind power contracts, if approved,  
17 would provide energy at costs higher than conventional alternatives based on a  
18 traditional least-cost analysis, they would likely prove to be cost-effective if a  
19 state or national RPS took effect in the near future. And entering into the wind  
20 power contracts “will not impair [the Companies’] ability to perform that  
21 service” if the Commission approves the cost recovery mechanism the  
22 Companies requested in their Application.

1           3. Given that it is a lawful and appropriate purpose of the Companies to anticipate  
2           and hedge against a highly likely environmental regulation like a state or  
3           national RPS, entering into the wind power contracts is indeed “reasonably  
4           necessary and appropriate for such purpose.”

5           So though there is not a federal or state RPS in place today that makes approving the  
6           wind power contracts strictly necessary, the appropriate standard, KRS 278.300(3), does  
7           not require strict necessity; rather, it requires that undertaking the obligation at issue be  
8           “reasonably necessary and appropriate.” The Companies believe the wind power  
9           contracts meet that standard to help protect customers from the potentially higher costs of  
10          renewable energy that could result from the imposition of an applicable RPS.

11 **Q.    What, if anything, causes the Companies to continue to believe that there is still an**  
12 **appreciable likelihood of an applicable state or federal RPS, or other environmental**  
13 **requirement the cost of which the wind power contracts might help to mitigate?**

14 A.    In the short time since the Companies executed the wind power contracts, several events  
15          have occurred that lead the Companies to believe that the imposition of an RPS or other  
16          comparable environmental regulation, whether at the state or federal level, is still likely.

17                 First, in October 2009, the Commission Staff stated in the Recommendations  
18          section of its report on the Companies’ 2009 IRP, “[T]here is a likelihood of new federal  
19          legislation and/or environmental rules regarding the control of greenhouse gas emissions  
20          in the foreseeable future. The aggressive pursuit of renewable generation opportunities,  
21          including smaller-scale distributed generation all the way down to the residential level,  
22          additional DSM programs and greater public awareness is all the more relevant.”<sup>8</sup>

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<sup>8</sup> *In the Matter of: The 2008 Joint Integrated Resource Plan of Louisville Gas and Electric Company and Kentucky Utilities Company*, Case No. 2008-00148, Commission Staff Report at 22 (Oct. 13, 2009).

1           Second, on December 7, 2009, the U.S. Environmental Protection Agency  
2 (“EPA”) Administrator issued an endangerment finding determining that greenhouse gas  
3 (“GHG”) emissions, including carbon dioxide, endanger public health and welfare.<sup>9</sup>  
4 Although the endangerment finding specifically relates to motor vehicles, the EPA has  
5 also proceeded with regulation of GHG emissions from stationary sources. On October  
6 27, 2009, the EPA issued a proposed Prevention of Significant Deterioration and Title V  
7 Greenhouse Gas Tailoring Rule that would impose control requirements on new or  
8 modified sources of GHG emissions, including power plants. The EPA has made  
9 regulation of GHG emissions a high priority on its regulatory agenda.

10           Third, in December 2009, Secretary Len Peters of Kentucky’s Energy and  
11 Environment Cabinet established the Kentucky Climate Action Plan Council. The  
12 purpose of the council is to develop a state action plan to address climate change,  
13 including potential options for reducing state GHG emissions.

14           Fourth, on February 9, 2010, Rep. Moberly introduced in the Kentucky House of  
15 Representatives a bill concerning renewable energy and related matters, HB 408. The  
16 bill contains a Renewable Energy Portfolio (“REP”) requirement of 2% in 2012, which  
17 would climb to 10.5% by 2020, and then increase 1% each year thereafter. Notably, the  
18 bill requires that utilities meet the REP standard with actual energy from renewable  
19 resources delivered to customers, not by alternative compliance payments or the purchase  
20 of renewable energy certificates.<sup>10</sup>

21           Although none of these items ensures the imposition of an RPS or other  
22 comparable requirement, they show that such proposals are still live options, both at the

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<sup>9</sup> See <http://epa.gov/climatechange/endangerment.html>.

<sup>10</sup> See H.B. 408, 2010 Regular Session (Ky. 2010). Available at <http://www.lrc.ky.gov/record/10RS/HB408.htm>.

1 state and federal levels. Because there continues to be a substantial likelihood of a  
2 federal or state RPS or other comparable environmental requirement, the Companies  
3 continue to believe the wind power contracts are “reasonably necessary and appropriate”  
4 to serve customers by hedging against the potentially higher costs of renewable energy  
5 after the imposition of an RPS.

6 **Q. Has Mr. Kollen shown in any way that the Companies’ anticipation of a state or**  
7 **federal RPS or carbon dioxide emissions regime is unreasonable?**

8 A. No. Though Mr. Kollen has asserted there is no reason to believe such environmental  
9 regulations are likely, he has also admitted he has not “independently researched” recent  
10 state legislative proposals that indicate to the Companies that the imposition of such  
11 regulations is not only possible, but even likely, in the near future. In his response to the  
12 Commission Staff’s Data Request No. 2 to the Joint Intervenors, Mr. Kollen stated, “The  
13 Companies have presented no evidence in this proceeding that federal or Kentucky  
14 renewables or carbon legislation is imminent, certain, or even likely.” Yet Mr. Kollen  
15 admitted in his responses to the Companies’ DR Nos. 2(e) and (f) that he had not  
16 “independently researched” the 2009 and 2010 Kentucky House bills the existence of  
17 which the Companies had asked him to acknowledge, both of which bills proposed  
18 creating renewable energy standards in Kentucky (particularly the latter bill, 2010 HB  
19 408, which I discussed above). One might reasonably wonder if Mr. Kollen’s being  
20 unaware of recent and continuing legislative developments in the direction of a state RPS  
21 could call into doubt the certainty of his assertion about the likelihood of a state or federal  
22 RPS.

1           Moreover, Mr. Kollen stated in his responses to the Companies' DR Nos. 2(b) and  
2 (c) that he had not "independently researched" the fact that 29 other states and  
3 Washington, D.C., had implemented RPSes, nor that numerous states around Kentucky  
4 are in that number, nor did he believe such information was relevant to Kentucky.  
5 Respectfully, I must disagree. Though Kentucky is by no means obliged to follow  
6 national trends, it would be ostrich-like to ignore such trends, particularly when, as I  
7 discussed above, there is clear interest among at least some state legislators, and possibly  
8 the governor, in following the trend.

9 **II. THE PROPOSED WIND POWER CONTRACTS ARE COST-EFFECTIVE**  
10 **COMPARED TO THE OTHER RENEWABLE RESOURCE PROPOSALS**  
11 **RESULTING FROM THE COMPANIES' JULY 2007 RENEWABLE RFP.**

12 **Q. What is the flaw in Mr. Kollen's assertion that the wind power contracts are not**  
13 **economical?**

14 A. The flaw in Mr. Kollen's assertion that the wind power contracts are not economical is  
15 that "economical" and "cost-effective" are relative terms: "economical" compared to  
16 what? "Cost-effective" compared to what? Context matters when evaluating the wind  
17 power contracts.

18           As I explained at length above, the regulatory environment in which the  
19 Companies operate to serve their customers is not one in which it is reasonable to assume  
20 that an RPS or a carbon-emission-control regime, or both, will not apply to the  
21 Companies in the foreseeable future. That is why the appropriate context for determining  
22 whether the proposed wind power contracts are cost-effective is the result of the  
23 Companies' renewable RFP process, not today's wholesale electric energy market or the  
24 Companies' current system average cost of electricity. As the Companies stated in their  
25 Application and as I explained in my direct testimony, the proposed contracts with



1 Invenergy are the most cost-effective proposal the Companies were able to bring from a  
2 proposal to the contract stage after conducting a nationwide RFP and follow-up  
3 processes. The Companies then engaged in negotiations that resulted in Invenergy's  
4 reducing its offered per-MWh energy price. So though the wind power contracts' energy  
5 price is admittedly well above today's wholesale electric energy market prices, it is  
6 indeed economical as compared to the renewable resource options actually available to  
7 the Companies during their RFP and follow-up processes.

8 **Q. On page 3 of his testimony, Mr. Kollen states, "The approval of these [wind power]  
9 contracts would result in rates that are not just and reasonable and that are based  
10 on an imprudent selection of supply side resource options." How do you respond?**

11 A. Because Mr. Kollen evaluated the wind power contracts in the wrong context, he  
12 erroneously characterized both the prudence of the Companies' resource selection and the  
13 propriety of the rates that would result from approving the contracts. For the reasons I  
14 discussed above, approving the wind power contracts would not result in unjust or  
15 unreasonable rates precisely because the "supply-side resource" the Companies are  
16 proposing is not imprudent. Although the imposition of an RPS is not certain, the  
17 legislative and regulatory history I set out above certainly indicates that it is likely one  
18 will be imposed in the near-term future. The Companies believe it is prudent to seek to  
19 hedge at least some of their customers' potential cost exposure under an RPS by securing  
20 lower-cost renewable energy before the imposition of an RPS, which would almost  
21 certainly drive up the cost of renewable energy (due to higher demand) and limit the  
22 Companies' bargaining power (due to the obligation to obtain renewable resources).

1           Furthermore, the process by which the Companies obtained proposals for long-  
2 term renewable energy to meet a likely RPS was prudent. The Companies obtained  
3 renewable energy proposals in the same prudent way that they obtain proposals for any  
4 other goods or services of consequence: an RFP. Mr. Kollen acknowledged in his  
5 response to the Companies' DR No. 1 that he does not mean to claim that the Companies'  
6 RFP process was imprudent. So the assertion that approving the wind power contracts  
7 would make the Companies' rates unjust and unreasonable because of "an imprudent  
8 selection of supply side resource options" is simply incorrect.

9           Perhaps the question about the wind power contracts is best answered by asking  
10 its inverse: would it be prudent for the Companies to do nothing in the face of such clear  
11 national and state trends toward RPSes and carbon dioxide caps or taxes? Would it be  
12 reasonable and in the customers' best interest for the Companies not to seek to hedge at  
13 least a portion of the potential increased cost of an RPS by obtaining means of  
14 compliance before the costs of such compliance rose? The Companies believe the  
15 answers to these questions are clear, as they have demonstrated by their actions.

16 **Q. Does Mr. Kollen's claim that the Companies invalidly assumed there will be carbon**  
17 **dioxide costs affect the cost-effectiveness of the wind power contracts?**

18 A. No. Again, there is no debate that the wind power contracts are not cost-effective  
19 compared to today's wholesale electric energy prices; the Companies openly stated as  
20 much in their application. And the Companies' modeling of likely carbon dioxide prices  
21 does not change that result over a twenty-year study period. But the assumption under  
22 which the Companies have operated is that there will not be just a carbon tax or cap-and-  
23 trade system, but rather that it is likely that there will be a state or federal RPS that will

1 apply to the Companies. Particularly if the applicable RPS is like the one just proposed  
2 in the Kentucky General Assembly, HB 408, it will not matter if there is a carbon cost;  
3 the Companies will have to supply certain percentages of renewably generated electricity  
4 to their customers, period.

5 But what the Commission should not overlook when considering Mr. Kollen's  
6 testimony is that he has not avoided taking a position on a future carbon control regime;  
7 rather, he has positively assumed there will not be any such regime at any time in the next  
8 twenty years. Given the U.S. House of Representatives' June 26, 2009 passage of the  
9 Waxman-Markey bill, which contained a GHG-emission regime, and the U.S. EPA  
10 Administrator's December 7, 2009 endangerment finding concerning GHGs, including  
11 carbon dioxide, I submit that it is Mr. Kollen's, not the Companies', position that is more  
12 dubitable.

13 **III. THE COMPANIES DO NOT VIEW THE INVENERGY WIND POWER**  
14 **CONTRACTS TO BE A PROFIT-MAKING OPPORTUNITY, AND THEY WILL**  
15 **NOT DIRECTLY PROFIT FROM THEM.**

16 **Q. What is the flaw in Mr. Kollen's assertion that the wind power contracts provide the**  
17 **Companies an "enhanced profit opportunity"?**

18 A. There are two fundamental flaws in Mr. Kollen's assertion that the wind power contracts  
19 provide the Companies an "enhanced profit opportunity." The first is that it obscures  
20 what ought to be clear: the Companies will not profit directly from the wind power  
21 contracts. The Companies have not entered into these contracts to make a profit; rather,  
22 they have entered into them as a hedge against a future RPS, to gain experience in the  
23 renewable energy field in advance of an RPS, and to acquaint their customers with the  
24 price of renewable power. Indeed, if the Companies had been interested in profiting from  
25 the wind power contracts, they would have sought base rate recovery of the projected

1 wind power costs and hoped for a long-term lull in the wind in Illinois. Instead, the  
2 Companies are seeking surcharge recovery of the wind power costs so the Companies  
3 will neither be harmed by, nor profit directly from, the Invenergy wind power contracts.

4 Second, it simply is not true that the wind power contracts provide an “enhanced  
5 profit opportunity” because bond rating agencies impute debt to companies that take on  
6 long-term purchase obligations; there is nothing at all “enhanced” about any such  
7 opportunity. Bond rating agencies have for many years treated a portion of all power  
8 purchase contracts as debt,<sup>11</sup> as the Companies have openly reported in past filings.<sup>12</sup>  
9 The Companies and their shareholders make equity capital investment decisions by  
10 looking at each utility’s overall debt and equity amounts, including imputed debt; as is  
11 standard practice in the utility industry, the Companies do not invest equity capital on a  
12 per-project basis or otherwise engage in “project finance,” as the Commission has  
13 acknowledged and accepted for years.<sup>13</sup> Moreover, there is no difference between equity  
14 capital invested at one time versus another; all is treated equally, and all earns the same  
15 amount of return. So there is nothing “enhanced” or unique about the “profit

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<sup>11</sup> Standard & Poor’s, *Standard & Poor’s Methodology For Imputing Debt For U.S. Utilities’ Power Purchase Agreements 2* (May 7, 2007) (“For many years, Standard & Poor’s Ratings Services has viewed power supply agreements (PPA) in the U.S. utility sector as creating fixed, debt-like, financial obligations that represent substitutes for debt-financed capital investments in generation capacity.”). Available at: <http://www.psc.state.ut.us/utilities/electric/09docs/0903523/062309ExhibitE.pdf>.

<sup>12</sup> *In the Matter of Application of Kentucky Utilities Company for an Adjustment of Base Rates*, Case No. 2009-00548, Testimony of Daniel K. Arbough at 3-4 (Jan. 29, 2010); *In the Matter of Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates*, Case No. 2009-00549, Testimony of Daniel K. Arbough at 3-4 (Jan. 29, 2010); *In the Matter of Application of Kentucky Utilities Company for an Adjustment of Base Rates*, Case No. 2008-00251, Testimony of S. Bradford Rives at 19-20 (July 29, 2008); *In the Matter of Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates*, Case No. 2009-00549, Testimony of S. Bradford Rives at 22-23 (July 29, 2008); *In the Matter of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company*, Case No. 2003-00434, Testimony of S. Bradford Rives at 17-18 (Dec. 29, 2003).

<sup>13</sup> *In the Matter of the Application of Louisville Gas and Electric Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff*, Case No. 2000-00386, Order at 24 (Apr. 18, 2001).

1 opportunity” the wind power contracts create; they are just like any other power purchase  
2 agreement in that regard.

3 **Q. Do you disagree with Mr. Kollen’s assertion that the cost of the wind power**  
4 **contracts to customers should take into account any profits the Companies might**  
5 **earn from an increased equity investment to offset imputed debt?**

6 A. Yes, I do disagree with Mr. Kollen on this issue. As I stated above, the Companies and  
7 their shareholders make equity capital investment decisions based on each utility’s  
8 overall debt-to-equity mix; they do not engage in project finance. To the best of my  
9 knowledge, the Companies have never attributed an amount of equity to a particular  
10 project in any of their proceedings before the Commission, so it would be inappropriate  
11 to do so in this case.

12 **Q. Do you disagree with Mr. Kollen’s suggestion that the Commission could approve**  
13 **the wind power contracts while stating its intent to reduce the Companies’ common**  
14 **equity in a future rate case?**

15 A. Yes, I disagree with Mr. Kollen on this issue, as well. And I take special issue with his  
16 assertion that such an approach would be “particularly appropriate ... because the  
17 Companies do not need the capacity or the energy, and the contracts are uneconomic  
18 ....”<sup>14</sup> Let me reiterate plainly that the Companies’ proposed wind power contracts are  
19 the most economical long-term renewable energy proposals the Companies were able to  
20 bring to the contract stage. But if the Commission does not agree that the contracts are  
21 prudent and meet all the applicable requirements of KRS 278.300, it should not approve  
22 the contracts.

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<sup>14</sup> Joint Intervenors’ Response to Commission Staff DR No. 4.

1           If, however, the Commission agrees with the Companies that the wind power  
2 contracts do indeed meet all the applicable requirements of KRS 278.300, an unavoidable  
3 concomitant of committing to the purchases the contracts require is the imputation of  
4 long-term debt by bond rating agencies. But as I have stated above, the Companies do  
5 not engage in project finance; to the best of the Companies' knowledge, the Commission  
6 has never countenanced such an approach to capitalization; and there is no warrant for  
7 doing so now. If the Commission determines in a future rate case that the Companies  
8 should alter their capital structure, it ought to be to preserve the financial integrity of the  
9 Companies and their ability to borrow at competitive interest rates, not to punish the  
10 Companies for entering into contracts the Commission approved. Mr. Kollen's  
11 suggestion is wholly at odds with this time-tested, principled, and Commission-approved  
12 approach to regulating utilities' rates and capital structures.

13 **IV. THE COMPANIES RESPECTFULLY REQUEST THE COMMISSION TO**  
14 **APPROVE EXPEDITIOUSLY THE WIND POWER CONTRACTS AND THE**  
15 **PROPOSED SURCHARGE MECHANISM.**

16 **Q. What is your recommendation to the Commission with regard to the wind power**  
17 **contracts?**

18 A. I recommend that the Commission approve the wind power contracts, as well as  
19 associated costs, as reasonable and authorize the Companies to proceed with the contracts  
20 and recover such costs via the proposed Renewable Resource Clause throughout the full  
21 term of the 20-year contracts. The record of this proceeding, including my testimony  
22 herein, shows that there is a substantial likelihood of a state or federal RPS in the near  
23 future, and that the Invenergy wind power contracts are cost-effective renewable energy  
24 sources to help comply with such an RPS. Entering into such contracts was reasonable  
25 and prudent, and there is ample reason to approve the contracts under KRS 278.300.

1           But it is imperative that the Commission pair any approval of the contracts with  
2           an approval of the proposed Renewable Resource Clause tariff. Though the Commission  
3           initially disapproved the surcharge mechanism, it granted rehearing and has not yet  
4           issued an order on rehearing. The Companies' position has been consistent throughout  
5           their dealings with Invenergy and this proceeding, and has not now changed; the only  
6           form of cost recovery under which the Companies will proceed with these contracts is  
7           surcharge recovery via the proposed Renewable Resource Clause tariff. This is for the  
8           straightforward reason that the Companies seek neither profit nor loss from these  
9           contracts and wish to make clear to their customers the cost of renewable resources

10           Finally, time is very much of the essence concerning these contracts. If the  
11           conditions precedent to proceeding with the contracts, including obtaining approval from  
12           the Commission that is acceptable to the Companies, are not met by March 23, 2010, the  
13           Companies will, as prudent managers, consider exercising their right to terminate the  
14           contracts. For that reason, the Companies urge the Commission to approve the proposed  
15           Invenergy wind power contracts and the Renewable Resource Clause by March 23, 2010.

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

17   **A.   Yes.**

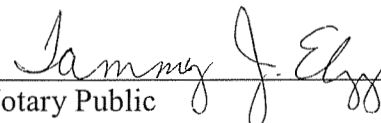
VERIFICATION

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 foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
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**Lonnie E. Bellar**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 4<sup>th</sup> day of March 2010.

 (SEAL)  
\_\_\_\_\_  
Notary Public

My Commission Expires:

November 9, 2010