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Vice Chairman

Charles R. Borders  
Commissioner

August 6, 2010

## PARTIES OF RECORD

Re: Case No. 2010-00237  
Kentucky Utilities Company and Louisville Gas and Electric Company  
Application to Retain Southwest Power Pool, Inc. to Perform Independent  
Transmission Organization Functions

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 Quang Nguyen, Staff Attorney, at 502-564-3940, Extension 256.

Sincerely,

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

Jeff Derouen  
Executive Director


QN/kar

Attachments

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File

**FROM:** Quang D. Nguyen, Staff Attorney 

**DATE:** August 6, 2010

**RE:** Case No. 2010-00237  
Application of Kentucky Utilities Company and Louisville Gas and Electric Company to Retain Southwest Power Pool, Inc. to Perform Independent Transmission Organization Functions

Pursuant to a July 30, 2010 Commission Staff notice, an informal conference was held at the Commission's offices on August 3, 2010. A list of the attendees is attached hereto.

The purpose of the informal conference was to discuss the terms of the extended Independent Transmission Organization ("ITO") Agreement between Kentucky Utilities Company and Louisville Gas and Electric Company ("Joint Applicants") and Southwest Power Pool, Inc. ("SPP"). Joint Applicants presented an overview of the events leading up to their decision to withdraw their application with the Federal Energy Regulatory Commission ("FERC") to reassign the ITO functions to themselves and extend the current ITO Agreement with SPP. Joint Applicants advised that the amended ITO Agreement preserves the basic structure of the existing ITO Agreement. Joint Applicants noted that there were some changes to the agreement, some of which included language clarifying the allocation of certain compliance responsibilities between Joint Applicants and SPP and termination of the agreement on August 31, 2012, with Joint Applicants agreeing to make the required FERC filings necessary to effectuate such a termination date no later than September 1, 2011.

Staff expressed concerns regarding the cost of the extended agreement and inquired whether Joint Applicants would commit, in potential future base rate filings, to waiving a claim of federal preemption with respect to the incremental costs of the extended ITO Agreement over its two-year term. Counsel for Joint Applicants advised that he would discuss the issue with the Joint Applicants and would inform Staff of that decision in the near future.

There being no further discussions, the informal conference was adjourned.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2010-00237

APPLICATION OF KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS  
AND ELECTRIC COMPANY TO RETAIN SOUTHWEST POWER POOL, INC.  
TO PERFORM INDEPENDENT TRANSMISSION ORGANIZATION  
FUNCTIONS

SIGN IN

August 3, 2010

PERSON

REPRESENTING

RICHARD RAFF

PSC-LEGAL

Quang D. Nguyen

PSC

Fereydoon Gorjian

PSC

JEFF SHAW

PSC-FIN. ANALYSIS

RICK LOVEKAMP

E.ON U.S.

Allyson Sturgeon

E.ON US

Lonnie Bellm

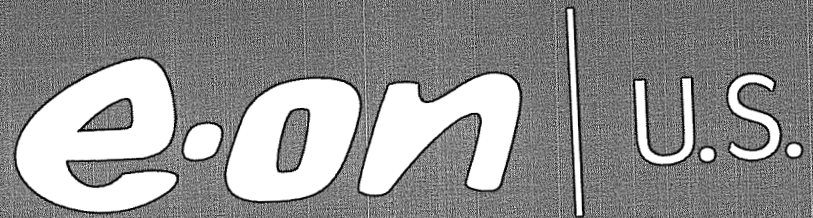
E.ON US

Ed Stabon

E.ON US

Kendrick Riggs

SKO for E.ON US



*KU/LG&E Application to Retain  
Southwest Power Pool, Inc. to Perform  
Independent Transmission  
Organization Functions*

*Case No. 2010-00237  
Informal Conference  
August 3, 2010*

## Background

- On July 6, 2006, the Commission approved the transfer of certain transmission control functions, specifically the ITO functions, from LG&E and KU to SPP under KRS 278.218 in Case No. 2005-00471. This contract with SPP expires under its terms on August 31, 2010.
- In July of 2009, SPP advised the Companies that it did not desire to renew the contract or otherwise to continue to offer ITO services to the Companies, and on October 26, 2009, provided the Companies a written notice of termination of the agreement.
- As a result, the Companies sought out alternative providers of ITO services by issuing a Request for Information, but this effort was ultimately unsuccessful. Consequently, in October 2009, LG&E and KU proposed to reassign to the Companies the ITO functions then (and now) delegated to SPP. The Commission approved this transfer in February, 2010, subject to FERC approval of the same.
- Concurrently in October 2009 LG&E and KU filed an application with the Federal Energy Regulatory Commission (FERC) to reassign the ITO functions to the Company.
- On April 28, 2010 FERC issued an order tolling the time in which to consider the filing, until October 25, 2010 (past the September 1, 2010 proposed cut-over date)



## ***Decision to Extend SPP-LG&E/KU Contract***

*•Due to the procedural progress to date, and the approaching expiration of the SPP contract, the Companies determined that the self-provision approach was no longer reasonably achievable without unacceptable delay and uncertainty.*

*•Under the existing circumstances, retaining SPP as the Companies' ITO is a currently pragmatic means of complying with FERC's transmission independence requirements and providing the FERC intervenors, several of which are Kentucky municipalities, assurance that the Companies' OATTs will be impartially administered.*

## *Negotiations with SPP*

- *In May 2010, LG&E/KU approached SPP with the possibility of extending the current ITO Agreement, as a way to comply with FERC's transmission independence requirement.*
- *Soon thereafter, SPP indicated it may be willing to extend the existing ITO Agreement.*
- *During June and July 2010 LG&E/KU began and concluded negotiations on needed amendments to the ITO Agreement to accommodate the extension.*

## *Terms of SPP Contract Extension*

- *The Amended ITO Agreement preserves the basic structure of the existing ITO Agreement.*
- *SPP as ITO remains responsible for administration of LG&E/KU's Open Access Transmission Tariff, approval of transmission service requests, transmission scheduling, certain review and approval responsibilities, and other functions.*
- *The primary changes appearing in the Amended ITO Agreement are:*
  - *Clarification regarding the allocation of certain compliance responsibilities between LG&E/KU and SPP;*
  - *Revised fixed compensation terms, plus "Variable Compensation" (for ongoing expenses) and "Other Compensation" (for activities undertaken at LG&E/KU's direction);*
  - *Termination of the Agreement on August 31, 2012, with LG&E/KU agreeing to make the required FERC filings necessary to effectuate such a termination date no later than September 1, 2011;*
  - *In the event that the required FERC or other regulatory orders do not issue in sufficient time to allow an August 31, 2012 termination date, SPP will provide LG&E/KU with "hold over services"; and*
  - *Other miscellaneous changes throughout the document, such as changes to ensure consistency between the parties' intellectual property rights.*



## *Estimate of Projected Costs Associated with SPP Contract Extension*

<b>Line Item (000s)</b>	<b>2011</b>	<b>2012</b>
FERC Ruling 676E & 729 Expenses	100	100
SPP Variable Cost (Legal, Travel, Oth.)	500	333
<i>SPP Contract Extension</i>	<u>8,000</u>	<u>5,333</u>
<b>Total</b>	<b>8,600</b>	<b>5,766</b>

## *Relief Requested*

- The Companies ask the KPSC to issue a declaratory order by September 30, 2010 stating that additional KPSC approval is not necessary.*

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