

October 15, 2007

The Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Louisville Gas & Electric Company, et al., Docket No. ER06-20-000
The ITO's Semi-Annual Report

Dear Secretary Bose:

The Southwest Power Pool, Inc. ("SPP"), as the Independent Transmission Organization ("ITO") for the Louisville Gas & Electric Company's ("LG&E") and Kentucky Utilities Company's ("KU") systems, hereby submits the ITO's Second Semi-Annual Report, in accordance with the Federal Energy Regulatory Commission's orders approving the establishment of the ITO and section 12.1.2 of the ITO Agreement in LG&E/KU's Open Access Transmission Tariff ("OATT").¹

The ITO will serve a copy of this report to all Interested Government Agencies and will make the report publicly available by posting it electronically on LG&E/KU's OASIS.

If there are any questions related to this matter, please contact the undersigned at the number listed above.

Respectfully submitted,

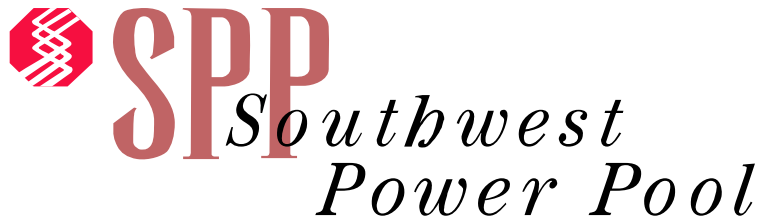
/s/ David S. Shaffer
David S. Shaffer

Counsel for the ITO

Attachments

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¹ See Louisville Gas & Electric Co., et al., 114 FERC ¶ 61,282, order on reh'g, 116 FERC ¶ 61,020, order on compliance, 116 FERC ¶ 61,019 (2006), reh'g denied, 118 FERC ¶ 61,158 (2007).



**Independent Transmission
Organization (ITO) for LG&E/KU
Semi-Annual Report
March – August 2007**

Table of Contents

1. OVERVIEW	3
2. STAKEHOLDER CONCERNS	5
3. ITO PERFORMANCE.....	14
4. TRANSMISSION HOARDING	20

1. Overview

1.1 E.ON U.S.

Louisville Gas & Electric Company (LG&E) and the Kentucky Utilities Company (KU) are operating subsidiaries of E.ON US (formerly LG&E Energy LLC), a diversified energy services company that is a wholly-owned subsidiary of E.ON AG. They own, among other things, an integrated electric transmission system which currently provides open access transmission service within the LG&E/KU footprint in accordance with LG&E/KU's Open Access Transmission Tariff (OATT or Tariff) filed with FERC on October 7, 2005, in Docket No. ER06-20-000. Throughout this report, the terms "E.ON" and "LG&E/KU" are used interchangeably to describe the LG&E/KU transmission systems.

1.2 Duties Pursuant to the ITO Agreement

Southwest Power Pool, Inc. (SPP), in its role as the Independent Transmission Organization (ITO) for LG&E/KU, is responsible for processing and evaluating transmission service requests (TSR), performing System Impact Studies (SIS), granting or denying TSRs, evaluating and implementing electronic tags, and overseeing the generator interconnection process and expansion planning function. SPP has been deemed by FERC to be an independent and appropriate entity to facilitate the ITO functions. While SPP is physically removed from the LG&E/KU footprint, due diligence by LG&E/KU established that core competencies such as experience, personnel, and infrastructure, along with SPP computer software, allow SPP to perform these functions in a highly effective manner. In accordance with the ITO Agreement and LG&E/KU OATT, SPP provides independent, non-discriminatory, open access transmission service on the LG&E/KU transmission system. LG&E/KU maintains ownership of its transmission system and is ultimately responsible for providing adequate transmission service to its customers with SPP performing key transmission related functions set forth in the Tariff and the ITO Orders.

1.3 ITO Semi-Annual Report Requirements

Pursuant to Attachment P of LG&E/KU's OATT, "The ITO shall report in writing to FERC every six (6) months (commencing on the six-month anniversary of the effective date of the Tariff and every six (6) months thereafter) to address (i) any concerns expressed by stakeholders and the ITO's response to same and (ii) any issues or Tariff provisions that hinder the ITO from performing its functions and responsibilities under this Attachment P and the other provisions of the Tariff." In addition, the ITO is also required to assess and report on instances of possible transmission hoarding.

The first ITO semi-annual report contained information that was above and beyond the requirements set forth in the OATT. The purpose of that report was to familiarize stakeholders with the breadth of functions being performed within the ITO as well as the required reporting under the OATT. The report is being re-formatted to focus on those items that are specifically required by the LG&E/KU OATT and FERC directives.

2. Stakeholder Concerns

2.1 Stakeholder Process

Attachment P and the ITO Agreement, require the ITO to conduct and oversee the LG&E/KU Stakeholder Process. The Stakeholder Process provides a forum for interested parties to raise concerns and discuss with ITO management issues related to the ITO's tariff administration functions.

During the current reporting period, the ITO held one stakeholder meeting in Louisville, KY on May 22-23, 2007. This meeting was attended by nineteen stakeholders. The agenda, meeting presentations, and meeting notes can be found on SPP's website at <http://www.spp.org/section.asp?pageID=68>.

2.2 SIS and Facilities Study (FS)

2.2.1 Overview

Pursuant to Attachment P, the ITO is responsible for processing and evaluating all TSRs. In accordance with the procedures contained in the LG&E/KU OATT, the ITO analyzes TSRs and determines on a non-discriminatory basis whether a SIS is needed. If a SIS is required, the ITO informs the customer as soon as practical and tenders a SIS Agreement within 30 days of receipt of the customer's completed application. The customer must execute and return the SIS Agreement to the ITO within 15 days, or the customer's application shall be deemed withdrawn and the customer's deposit returned with interest. Upon receipt of the SIS Agreement, the ITO shall use due diligence to complete the SIS within 60 days. The ITO will notify the customer if it cannot complete the SIS in 60 days and also provide an estimated time of completion and reason for the extended time frame.

Where applicable, the ITO has 30 days from the SIS completion date to tender to the customer a FS Agreement, under which the customer agrees to reimburse the ITO and LG&E/KU for actual FS costs. The customer must execute and return the FS Agreement to the ITO within 15 days, or the customer's application shall be deemed withdrawn and the customer's deposit returned with interest. Upon receipt of the FS Agreement, and subject to the ITO's oversight, LG&E/KU shall use due diligence to complete the FS within 60 days. The ITO will notify the customer if LG&E/KU cannot complete the FS in 60 days and also provide an estimated time of completion and reason for the extended time frame. Within 30 days of the completion of the FS, the customer must execute a Service Agreement or request filing of an unexecuted Service Agreement provided that

the required resources are acceptable to LG&E/KU and are equivalent to the cost of the new facilities.

2.2.2 SIS and FS Statistics

Table 1 below lists the number of SIS requested during the current reporting period. Table 2 illustrates the current status of all SIS that have been processed during the current reporting period.

Table 1

SIS Requested (Date in Queue)

March	April	May	June	July	August
1	1	2	4	2	7

Table 2

SIS and Status
Reporting Period Ending August 31, 2007

SIS Number	Oasis Number	Point of Receipt	Point of Delivery	Capacity Requested	Oasis Status
LGE-2007-005	1247659	LGEE	LGEE	10	WITHDRAWN
LGE-2007-006	1268557	LGEE	PJM	63	CONFIRMED
LGE-2007-007	1276017	LGEE	LGEE	8	STUDY
LGE-2007-008	1280332	LGEE	LGEE	10	CONFIRMED
LGE-2007-009	1295555	LGEE	LGEE	10	STUDY
LGE-2007-010	1295556	LGEE	LGEE	260	REFUSED
LGE-2007-011	1297984	LGEE	LGEE	8	STUDY
LGE-2007-012	1302768	LGEE	LGEE	5	WITHDRAWN
LGE-2007-013	1311126	LGEE	LGEE	20	STUDY
LGE-2007-014	1314878	LGEE	LGEE	43	STUDY
LGE-2007-015	1318884	JOPPA	LGEE	70	STUDY
LGE-2007-016	1318885	JOPPA	LGEE	70	STUDY
LGE-2007-017	1318886	BLUEGRASS	LGEE	165	STUDY
LGE-2007-018	1318888	BLUEGRASS	LGEE	165	STUDY
LGE-2007-019	1318889	MAGNOLIA	LGEE	225	STUDY
LGE-2007-020	1318890	MAGNOLIA	LGEE	225	STUDY
LGE-2007-021	1330309	MISO	LGEE	17	STUDY

The ITO completed fourteen (14) SIS during the current reporting period. The ITO also had twelve (12) SIS in the queue at the end of the reporting period.

Table 3 shows that a total of eight (8) FS were performed by E.ON for the LG&E/KU transmission system from March 1, 2007 through August 31, 2007. The table also shows the OASIS reservations that were confirmed as a result of these studies and the specific study information.

Table 3

Summary of FS

Oasis Number	Point of Receipt	Point of Delivery	Capacity Requested	Start Date	Stop Date
1175340	MISO	LGEE	111	10/1/2011	9/30/2041
1200862	LGEE	LGEE	10	2/29/2008	2/28/2009
1200866	LGEE	LGEE	19	11/30/2007	11/30/2008
1200925	LGEE	LGEE	17	5/1/2007	5/1/2008
1200929	LGEE	LGEE	19	5/1/2008	5/1/2009
1213098	LGEE	LGEE	11	2/29/2008	2/28/2009
1214948	LGEE	LGEE	9	11/30/2007	11/30/2008
1230879	LGEE	LGEE	5	6/1/2007	6/1/2008

2.2.3 Stakeholder Concerns

The stakeholders have expressed concern that several of the SIS performed by the ITO have taken longer than 60 days to complete. There are several factors that contributed to these delays, as described in Sections 2.2.3.1 and 2.2.3.2.

2.2.3.1 E.ON Reliability Criteria – E.ON's Reliability Criteria requires that the ITO perform N-1-1 and N-2 contingency analysis. Performing studies using these criteria is more computationally intensive and takes longer to complete than with traditional N-1 contingency analysis.

2.2.3.2 Software Related Issues - E.ON Transmission Planning uses General Electric PSLF software as their power system analysis software. The ITO uses Power Technologies, Inc. PSS/E software. Although the diversity of analysis tools provides greater confidence in reliability assessments, the difference in software applications has caused delays in the SIS process because of model conversion, results output format, and overload calculation differences. The ITO has worked with Power Technologies International (PTI) to develop customized software to resolve the output format issues. The ITO is also working with E.ON to address other issues related to model conversion and results interpretation.

In addition, the ITO has implemented several automated processes and worked with the software vendor to create customized software in order to decrease the amount of time required to perform these studies. The ITO commissioned an internal working group to identify alternatives to further improve the efficiency of the SIS process. The ITO has purchased software licenses for new analysis tools that will further expedite the completion of the studies.

As a result of these changes, the ITO has made progress in completing its studies in a timely manner. Since July, the studies performed have taken an average of 57 days to complete.

2.3 Expansion Planning

2.3.1 Overview

The evaluation of the 2006 E.ON Transmission Expansion Plan included a multi-faceted review of all activities, policies, and inputs impacting the resulting plan. This process included the following stages:

Planning Criteria Review

The ICT objectively reviewed and evaluated the local planning criteria developed by E.ON to ensure that discriminatory practices were not part of their current expansion planning process and that the guidelines being followed were consistent with good engineering practices.

Power Flow Model Validation

The ICT gave a focused review of the power flow base case models for accuracy and performance. The ITO's main objectives were to verify that all network resources limits were met in the models and to confirm that LG&E/KU's system loads and surrounding area's power systems were accurately modeled.

Facility Characteristics and Ratings Review

The ITO monitored E.ON's transmission facility ratings by reviewing their ratings methodology and facility ratings program (FRP). The ITO verified that E.ON collected and maintained specific transmission information regarding characteristics of facilities, lines equipment, and had a documented methodology for determining the appropriate thermal ratings of circuits and transformers. The ITO did not perform an independent audit of facility ratings.

Reliability Assessment (based on March 2005 E.ON Transmission Planning Guidelines)

The ITO performed a reliability analysis of the system. The reliability studies and contingency analysis performed by the ITO on LG&E/KU's system were used to verify the compliance level of the Transmission Expansion Plan with the local planning criteria and NERC Planning Standards.

Expansion Plan Analysis

The ITO identified all criteria violations using the results from the Reliability Assessment. The ITO created a list of all the problems that showed up after it performed a series of specific contingency analysis using power flow models that included the construction of all scheduled projects.

Operating Procedures Assessment

E.ON provided comments regarding the operating procedures, including new and existing switching procedures. The ITO reviewed these operating procedures to determine if they adequately mitigated the associated violation or if a planned project needed to be expedited in order for the Transmission Expansion Plan to comply with the required reliability standards. The final system simulation included a second run of studies using the original series of contingencies incorporating the switching procedures provided by E.ON. Procedures that did not either eliminate the original problems or caused new ones were determined to be inadequate. On the other hand, if the switching procedure mitigated the original problem without causing new ones it was considered to be a satisfactory solution. The ITO assessment did not independently evaluate the amount of time that it would take E.ON to implement the operating procedures.

2.3.2 Stakeholder Concerns

The stakeholders have expressed concern that the ITO's independent evaluation of E.ON's Transmission Expansion Plan has not been published. The ITO offers the following update to its review of the plan.

In accordance with the final phase of the review process, the ITO has gathered and analyzed data from the various studies and compiled its final report on E.ON's Transmission Expansion Plan. The ITO has provided the final report to E.ON for its review of the ITO's conclusions and recommendations from its analysis. Once E.ON's review is complete, the ITO will share the report with TVA. After E.ON and TVA have had an opportunity to review and comment, the ITO will publish its final report

2.4 Large Generator Interconnection Procedures (LGIP)

2.4.1 Overview

An interconnection customer shall submit to the ITO an interconnection request in the form of Appendix 1 of the LGIP. Requests for interconnection shall be subject to an Interconnection Feasibility Study, an Interconnection SIS, and an Interconnection FS. Under the LGIP, the ITO is to use reasonable efforts to complete the Interconnection Feasibility Study within forty-five (45) days, the Interconnection SIS within ninety (90) days, and the Interconnection FS within ninety (90) or one hundred eighty (180) days depending on the cost estimate. For all studies, the ITO is to notify the interconnection customer if the study will not be completed within the time required and provide an estimated completion date and an explanation of the reasons why additional time is required.

2.4.2 Interconnection Statistics

As shown by Table 4, the ITO has received four (4) requests for interconnection service during the current reporting period.

Table 4

Summary of Interconnection Requests

Generation Interconnection Number	Nearest Town or County	State	CA	In-Service Date	Capacity	Type	Status
LGE-LGI-2007-001	Central City	KY	LGEE	6/1/2014	750	Steam	IMPACT STUDY IN PROGRESS
LGE-LGI-2007-002	Central City	KY	LGEE	6/1/2014	610	Combined Cycle	IMPACT STUDY SET TO BEGIN
LGE-LGI-2007-003	Henderson County	KY	LGEE	3/31/2011	640	Combined Cycle	WITHDRAWN
LGE-LGI-2007-004	Henderson County	KY	LGEE	3/31/2011	640	Combined Cycle	FEASIBILITY STUDY REQUESTED

2.4.3 Stakeholder Concerns

The stakeholders have expressed concerns about delays in the LGIP process. The following factors have contributed to these delays.

Stability and Short Circuit Models – When the ITO assumed responsibility for the LGIP process, the Transmission Owners did not have updated regional stability or short circuit models for the regional Transmission System. Moreover, the proximity of requested interconnections has resulted in coordinating studies with multiple transmission planning authorities and owners. As a result of the coordination between affected Transmission Owners and creating regional models, the LGIP process has taken longer to complete. The ITO has hired a consultant to assist the ITO in these coordination issues.

Additional Powerflow Analysis – Pursuant to Kentucky Public Service Commission requirements, the impacted Transmission Owners have required that the ITO study and consider a broad scope of upgrade scenarios related to each LGIP request. Performing these additional analyses and giving the affected Transmission Owners time to review and provide feedback has taken more time than anticipated and has delayed the LGIP process. The ITO continues to work diligently to coordinate the required powerflow analysis between impacted parties.

3. ITO Performance

In this section of the report, the ITO will address how its ability to perform its functions and responsibilities has been impacted by issues under the LG&E/KU OATT during the current reporting period. In addition, this section will contain operational results of the ITO's processing of TSRs to assess the ITO's performance of its tariff administration function.

3.1 Proposed Tariff Changes

3.1.1 Order No. 890

In conjunction with Order 890, the ITO has responded to numerous requests for data received from FERC staff during the past six months. In addition, the ITO has worked in cooperation with E.ON to implement procedures and processes necessary to meet the requirements of Order 890.

On July 13, 2007, E.ON filed amendments to LG&E/KU's OATT in compliance with the requirements of Order 890. The provisions of the revised tariff impose significant additions to the existing ITO responsibilities and will require several staff additions to ensure future compliance in the areas of Operations, Planning, and Regulatory Reporting. The ITO will implement additional OASIS functionality and Business Practices to be developed by NAESB and NERC as they become available. The ITO has presented to E.ON Management a thorough assessment of the ITO's new resource needs and is negotiating in good faith to amend the ITO contract accordingly.

3.1.2 Order No. 693

On March 16, 2007, FERC issued Order 693 mandating specific requirements for the various functional entities involved in the Operations and Planning of the Bulk Electric Transmission System. The ITO has reviewed and modified its procedures as necessary to comply with the applicable requirements.

3.1.3 Feasibility Assessment Service (FAS)

On August 3, 2007, the FERC issued an order conditionally accepting the proposed amendment to the LG&E/KU Tariff to implement the FAS process. The ITO is currently working with the E.ON Transmission Planning department to implement and administer the FAS process.

3.1.4 Reliability Assessment Requirements

Currently, Attachment C to the LG&E/KU Tariff requires reliability assessments be conducted in accordance with the criteria established in FERC Form 714. In March 2007, E.ON filed Form 714 and criteria that requires the LG&E/KU transmission system to be capable of performing within design limits under concurrent Transmission and Generation contingencies assuming utilization of the worst-case replacement power sources, including imports from neighboring systems. The intent of this requirement is to ensure that the E.ON transmission system is designed and constructed to meet operating criteria that exceed the operational reliability requirements imposed by the NERC.

The application of these reliability criteria in studies to assess requests for transmission service, interconnection service, and to evaluate system expansion needs, however, unnecessarily burdens the ITO and E.ON Planning Engineers. Therefore, the ITO has identified a potential enhancement to LG&E/KU's Tariff that will maintain similar reliability performance by calculating and applying Capacity Benefits Margin (CBM) and Transmission Reliability Margin (TRM) consistent with NERC and Regional guidelines. The analysis required for the current performance criteria under Form 714 effectively doubles the amount of time and expense required to evaluate transmission and interconnection service requests. In contrast, the ITO believes its proposed amendment to the existing reliability assessment criteria will effectively preserve system reliability while providing customers improved access to transmission service on the LG&E/KU system. E.ON and the ITO are in good faith negotiations to amend the ITO contract to provide the resources required for the ITO to perform the new functions associated with these reliability assessment requirements.

3.2 TSRs

Transmission Customers must obtain access to the LG&E/KU OASIS node at <http://sppoasis.spp.org/OASIS/LGEE>. Requests may be submitted by completing the electronic form in accordance with the provisions in the Standards and Communication Protocols of LG&E/KU's OATT. The following four figures provide pertinent data on the use of the LG&E/KU transmission system during the current reporting period.

Figure 1 provides a comparison of confirmed versus total TSRs on the LG&E/KU transmission system for the period of March 1, 2007 through August 31, 2007. Collected data illustrates an 82.74% overall confirmation rate during this time period.

Figure 1

Total (Firm-Non Firm) Requests/Confirmations
March 1, 2007 - August 31, 2007

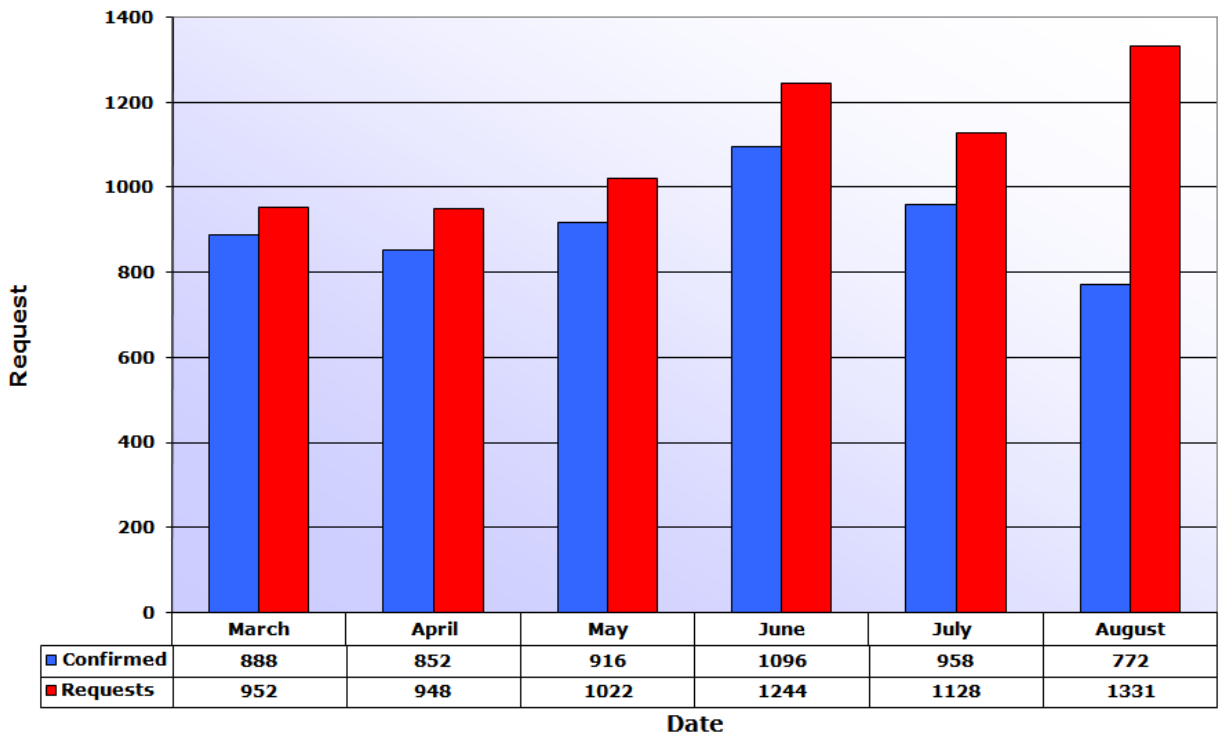
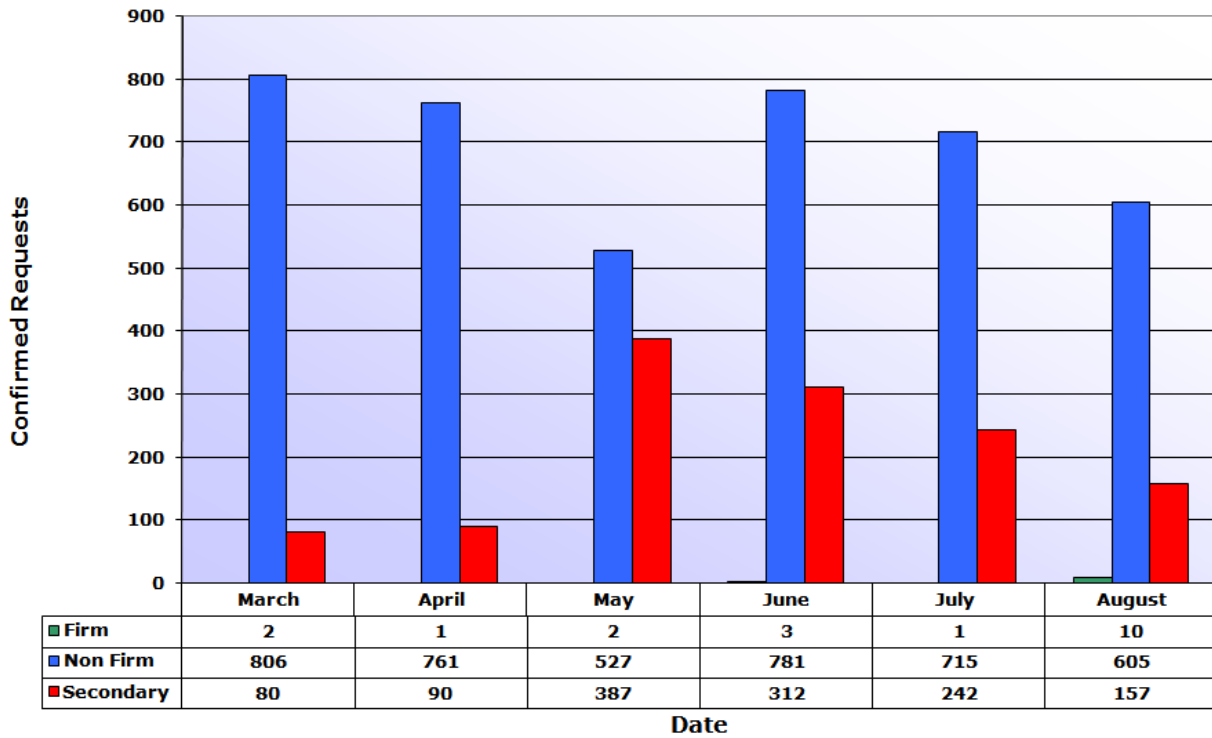


Figure 2 shows TSRs by type (Firm, Non-Firm and Secondary) that were submitted and confirmed by the ITO for the current reporting period.

Figure 2

Request Type / Confirmed Requests

March 1, 2007- August 31, 2007



The following figures (Figures 3 and 4) illustrate confirmed versus total requests for each particular path with a designation between Firm and Non-Firm transmission service. The figures show that the primary paths for both Firm and Non-Firm service are LGEE-MISO, LGEE-PJM and LGEE-TVA.

Figure 3

Firm Requests by Path
 March 1, 2007 - August 31, 2007

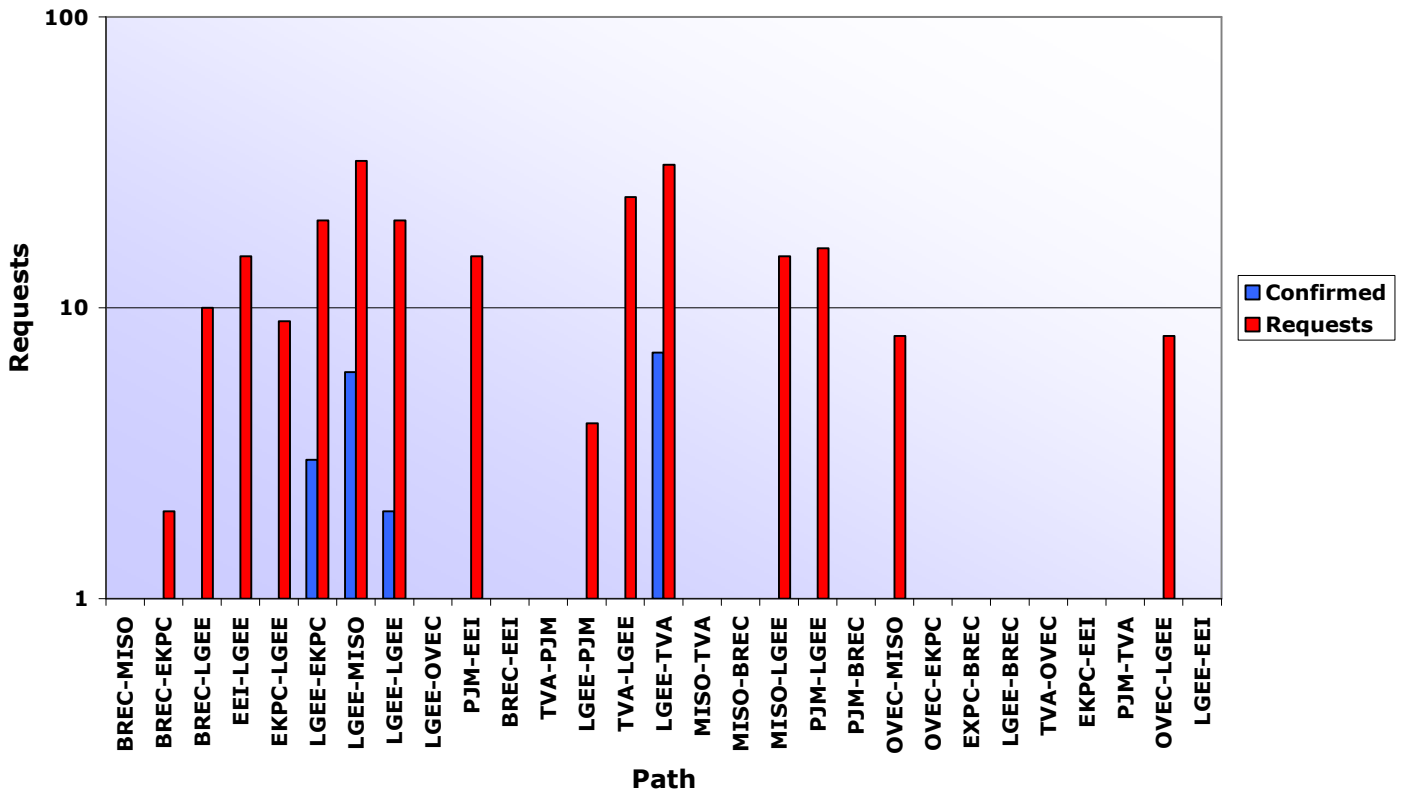
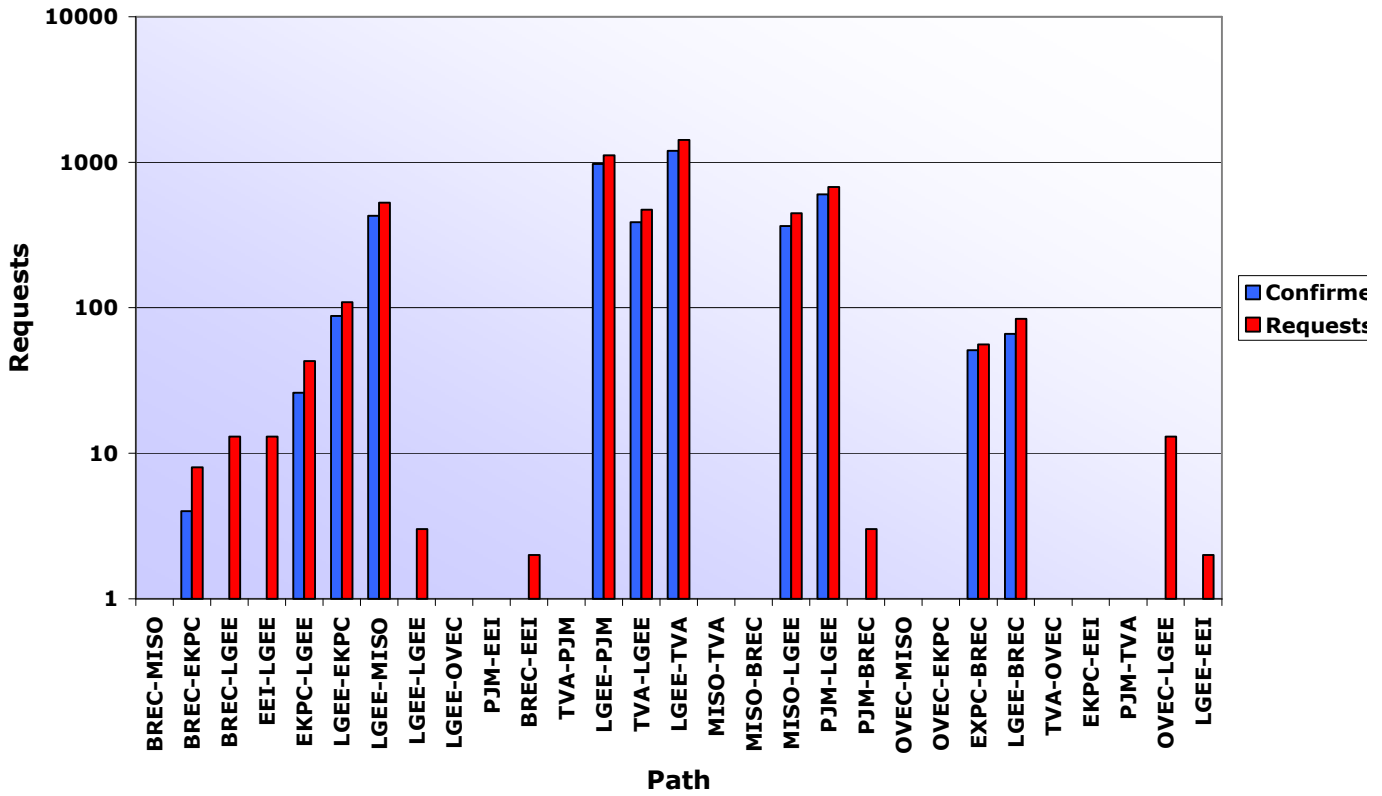


Figure 4

Non-Firm Requests by Path
 March 1, 2007 - August 30, 2007



4. Transmission Hoarding

The ITO is charged with identifying activities by Market Participants that could potentially result in transmission capacity hoarding on the LG&E/KU system. Pursuant to Attachment P of LG&E/KU's OATT, the ITO performs a monthly assessment of unscheduled reservations and redirected capacity to identify recurring instances that could have a potentially detrimental market impact. In addition, the ITO monitors potential transmission hoarding behavior by tracking and documenting detrimental scheduling practices under the following criteria: withdrawn Firm reservations, unconfirmed reservations, and annulled reservations.

For the current reporting period, the ITO found no data where Firm capacity was redirected. Paths that had no data involving the identified criteria are not listed in the respective tables below:

Table 5 shows in MWh's the amount of unscheduled Firm service by month and by path.

Table 5

Unscheduled Firm Capacity (MWh's) per Month by Path

Reporting Period - March 1, 2007 - August 31, 2007

(All values presented in MWh)

PATH	Status in MW Hours	Mar	Apr	May	Jun	Jul	Aug
LGEE/EKPC	Reserved (MWh)	85560	82800	85560	86544	85560	85560
	Scheduled (MWh)	0	0	0	2412	0	0
	Unscheduled	85560	82800	85560	84132	85560	85660
LGEE/LGEE	Reserved (MWh)	247752	239760	247752	239760	247752	247752
	Scheduled (MWh)	0	0	0	0	0	0
	Unscheduled	247752	239760	247752	239760	247752	247752
LGEE/MISO	Reserved (MWh)	114465	96004	256014	97710	99710	103517
	Scheduled (MWh)	74825	51734	65794	48138	54219	51502
	Unscheduled	39640	44270	190220	49572	45181	52015
LGEE/PJM	Reserved (MWh)	38480	37492	38688	37908	39000	38792
	Scheduled (MWh)	7775	6144	8400	7172	14615	7675
	Unscheduled	30705	31348	30288	30736	24385	31117
LGEE/TVA	Reserved (MWh)	0	0	0	0	0	7296
	Scheduled (MWh)	0	0	0	0	0	1440
	Unscheduled	0	0	0	0	0	5856
TVA/LGEE	Reserved (MWh)	46128	44640	46128	44640	46128	46128
	Scheduled (MWh)	4944	5404	4638	786	0	0
	Unscheduled	41184	39236	41490	43854	46128	46128

Table 6 shows the amount in MWh's of retracted Firm service by month and by path.

Table 6

Retracted Firm Capacity (MWh's) per Month by Path
Reporting Period Ending August 31, 2007

Path	March	April	May	June	July	August
LGEE-MISO						160
LGEE-TVA					5	59
LGEE-EKPC				400		310
LGEE-LGEE					495	
OVEC-MISO				10		
PJM-EEI			100	800		

Table 7 shows the amount in MWh's of withdrawn Firm service by month and by path.

Table 7

Withdrawn Firm Capacity (MWh's) per Month by Path
Reporting Period Ending August 28, 2007

Path	March	April	May	June	July	August
LGEE-TVA						1450
LGEE-MISO					1	630
LGEE-EKPC				221		310
EKPC-EEI				103		
LGEE-LGEE	10			20		
LGEE-PJM		63				

In Order 888, FERC found that allowing holders of Firm transmission capacity rights to reassign capacity would help parties manage the financial risks associated with their long-term commitments, reduce the market power of transmission providers by enabling customers to compete, and foster efficient capacity allocation. However, the price cap imposed by that order has served to reduce options and impaired the development of a competitive secondary market for transmission capacity.

In Order 890, the Commission lifted the price cap for reassigned capacity. By doing so, the Commission seeks to facilitate the development of a secondary transmission capacity market and to send more accurate price signals to identify the appropriate location for construction of new transmission facilities. With this policy shift on reassigned capacity, the Commission is encouraging Market Participants to utilize unscheduled reservations and redirected capacity. In Order 890, the Commission

recognized that this should remove any incentive for transmission customers and transmission providers to hoard transmission capacity. However, the Commission stated that it will continue to monitor the secondary capacity market to ensure that Market Participants are not exercising market power. Accordingly, the ITO will continue to track and document this type of Commission-endorsed market behavior associated with transmission hoarding.