

March 19, 2007

The Honorable Philis J. Posey, Acting 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 Posey:

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 First 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
Jeffrey G. DiSciullo
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**

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1. Overview

1.1 E.ON U.S. LLC

Louisville Gas & Electric Company (LG&E) and the Kentucky Utilities Company (KU) are operating subsidiaries of E.ON U.S. LLC (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.

1.1.1 E.ON Subsidiary - Louisville Gas and Electric Company

LG&E is a regulated electric and natural gas utility, based in Louisville, Kentucky, serving Louisville and surrounding counties. LG&E currently provides service for 384,139 electric customers in an approximately 700 square mile area. As of this report, LG&E's total regulated generation capacity is 3,514 megawatts.

1.1.2 E.ON Subsidiary - Kentucky Utilities Company

KU is a regulated electric utility, based in Lexington, Kentucky, serving customers in seventy-seven (77) Kentucky counties and five (5) counties in Virginia (under the name Old Dominion Power - ODP). KU currently serves 485,253 electric customers in Kentucky and 29,730 customers in Virginia. KU's service area covers 6,600 noncontiguous square miles with a total current generation capacity of 4,570 megawatts.

1.2 Independent Transmission Organization (ITO)

On October 7, 2005, as amended on January 10, 2006, LG&E/KU submitted to the Federal Energy Regulatory Commission (hereinafter, FERC or Commission) under sections 203 and 205 of the Federal Power Act (FPA) a proposal to withdraw their transmission facilities from the transmission system operated by the Midwest Independent Transmission System Operator, Inc. (Midwest ISO) and establish an ITO for its energy system. In its filing, LG&E/KU named Southwest Power Pool (SPP) as the ITO and the Tennessee Valley Authority (TVA) as its Reliability Coordinator. On March 17, 2006 in Docket No. ER06-20-001 (hereinafter, ITO Order), the Commission conditionally approved LG&E/KU's withdrawal from Midwest ISO and accepted SPP as the ITO and the TVA as the reliability coordinator. The ITO assumed its duties on September 1, 2006.

1.3 Duties Pursuant to the ITO Agreement

SPP, in its role as the ITO for LG&E/KU, is responsible for administering LG&E/KU's OATT, processing and evaluating transmission service requests, performing system impact studies, granting or denying generator interconnection requests, evaluating and implementing electronic tags, and overseeing the 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's 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.

In accordance with section 12.1.2 of the ITO agreement, this report provides the operational results required to assess the success of the ITO and LG&E/KU's compliance with the terms and conditions of the Midwest ISO withdrawal order. This report is intended to satisfy the reporting requirement for the period beginning September 1, 2006 and ending February 28, 2007. It is also intended to provide to stakeholders and other interested parties information pertinent to the performance of the ITO.

2. ITO Stakeholder Process

Pursuant to the ITO Order, at paragraph 151, the ITO shall conduct and oversee the LG&E/KU stakeholder process. The stakeholder process provides a forum for interested parties to discuss with ITO management issues related to the ITO's tariff administration functions. This section will review the ITO's oversight of the stakeholder process by summarizing the discussion topics and conclusions of each respective meeting of the stakeholders during the current reporting period.

During this reporting period, the ITO held the first stakeholder meeting in Louisville, KY on December 7, 2006. This meeting was attended by forty-three (43) stakeholders. The agenda and meeting notes can be found on SPP's website at <http://www.spp.org/section.asp?pageID=68>. The primary items of discussion at the meeting are discussed below.

- **Overview of the ITO:** This overview included discussions on the LG&E/KU and Midwest ISO Tariffs as well as background of the ITO and its roles and responsibilities.
- **Transmission Service:** The ITO provided a detailed description of the transmission service process. The topics discussed at this part of the meeting included both service request submittal and the ATC and AFC processes (including modeling practices, calculations, quality control and transmission constraint analysis). The ITO also reviewed operational data that pertained to transmission service.
System Impact Study Process Overview: The ITO presented the entire process of how studies are initiated into the queue and moved forward into the Facility Study phase. Stakeholders were encouraged to ask questions or provide feedback on the process.
- **Transmission Expansion Planning:** The ITO outlined the transmission expansion planning process as it relates to the ITO's objectives and responsibilities for the LG&E/KU system.
- **ITO Business Practices:** Stakeholders were also briefed on the ITO business practices in Point to Point Service and Network Integration Transmission Service scheduling.

3. Tariff Administration

Pursuant to Section 3.2 of Attachment L to LG&E/KU's OATT, SPP, as the ITO, is responsible for all aspects of Tariff Administration on the LG&E/KU transmission system. This section is designed to present data on the Tariff Administration functions of the ITO. The information contained in the figures and charts below provide the amount of activity on the LG&E/KU transmission system during the current reporting period. Although no true comparison exists on pre-ITO transmission system activity because of LG&E/KU's membership in the Midwest ISO, the ITO has observed activity consistent with its expectations during the current reporting period.

3.1 Transmission Service Requests

To submit a service request on LG&E/KU's system, transmission customers must obtain access to LG&E/KU's 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 transmission service requests on the LG&E/KU transmission system for the first reporting period of September 1, 2006 through February 28, 2007. Collected data illustrated a 74.4% overall confirmation rate during this time period.

Figure 1

Total (Firm-Non Firm) Requests/Confirmations

September 1, 2006 - February 28, 2007

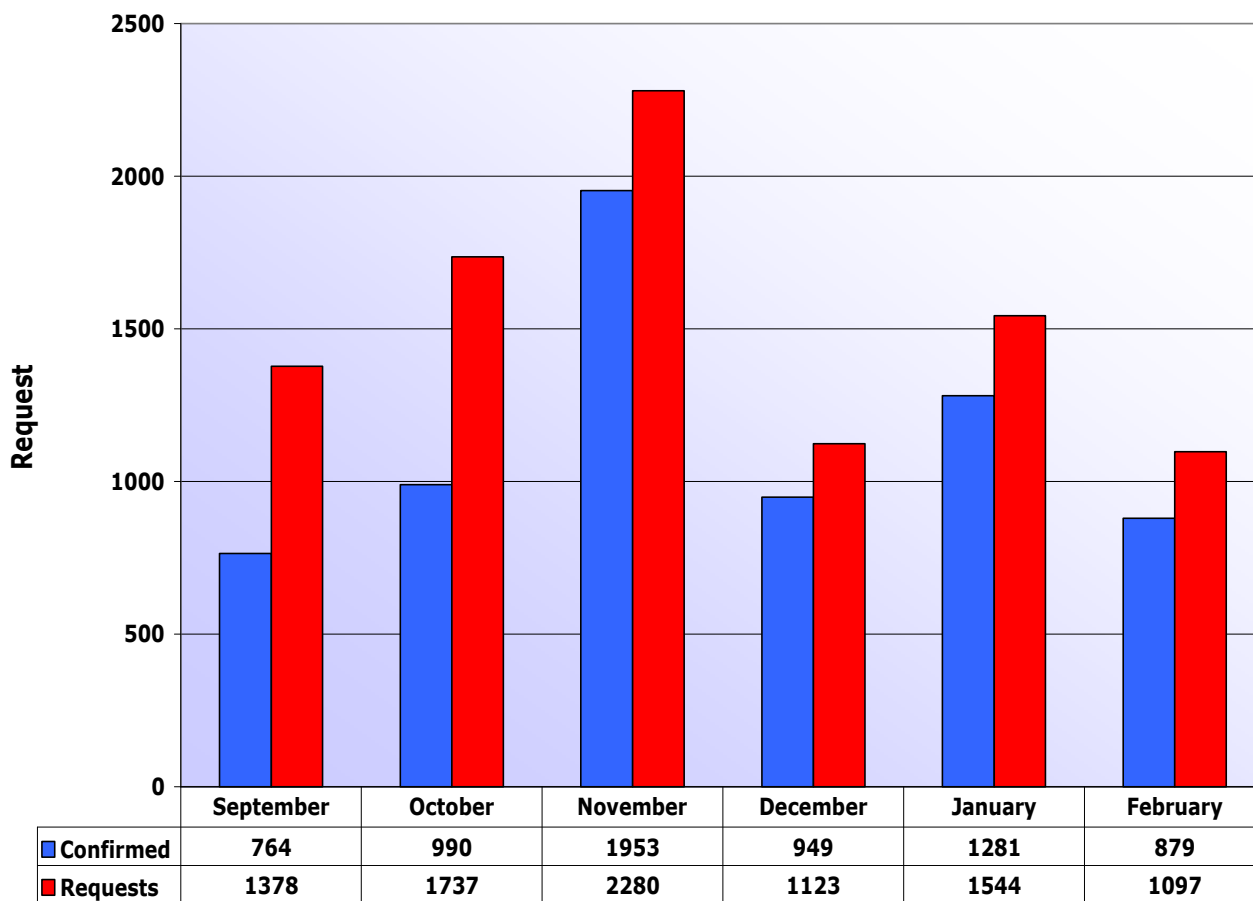
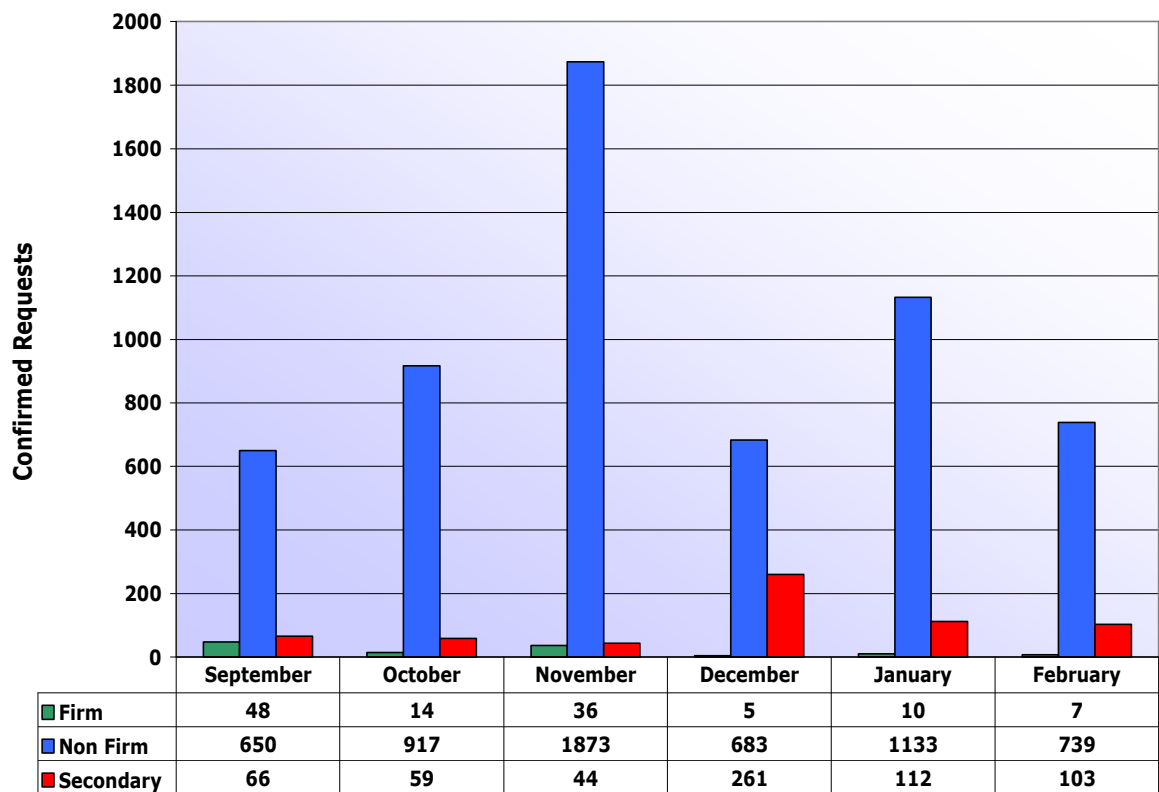


Figure 2 shows transmission service requests by type (Firm, Non-Firm and Secondary) that were submitted and confirmed by the ITO for the current reporting period.

Figure 2

Request Type

September 1, 2006 - February 28, 2007



The following figures (Figures 3 and 4) illustrate confirmed versus total requests for Firm and Non-Firm transmission service for each particular path. 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

September 1, 2006 - February 28, 2007

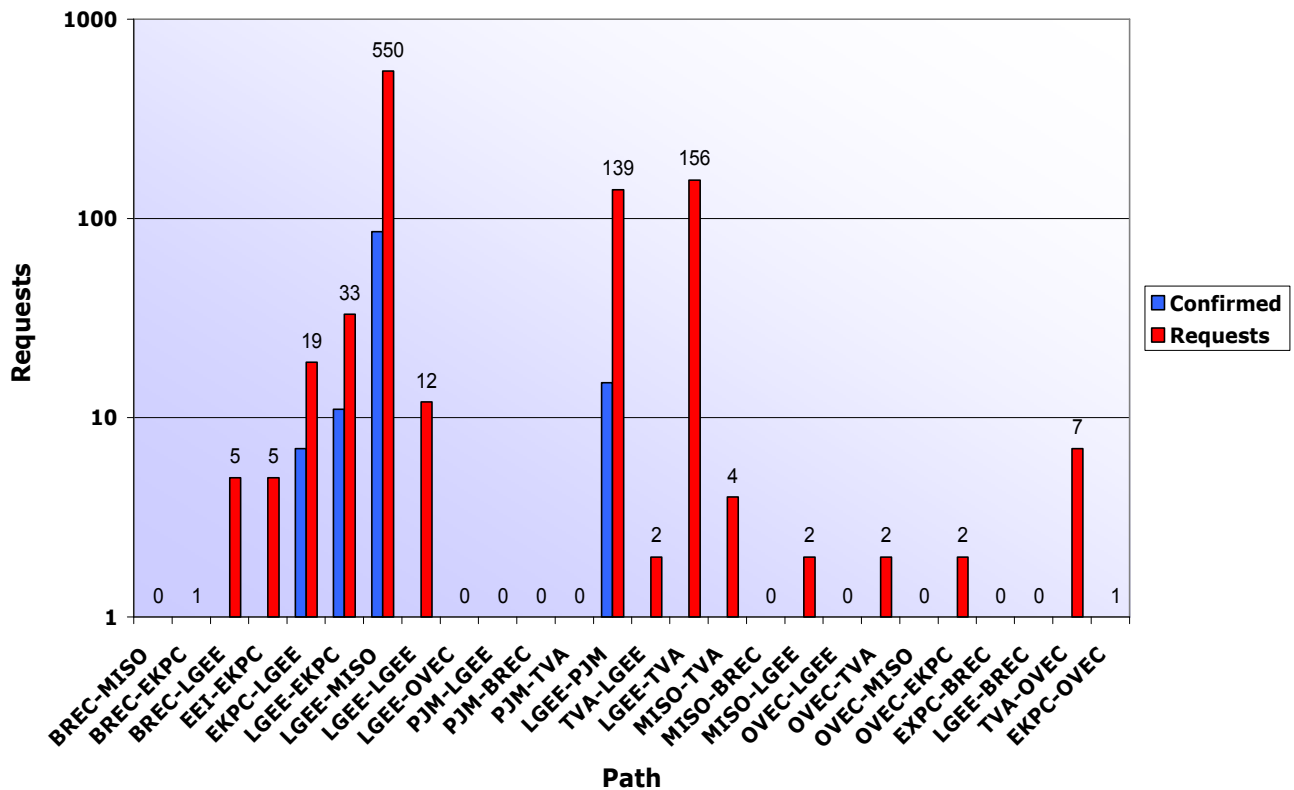
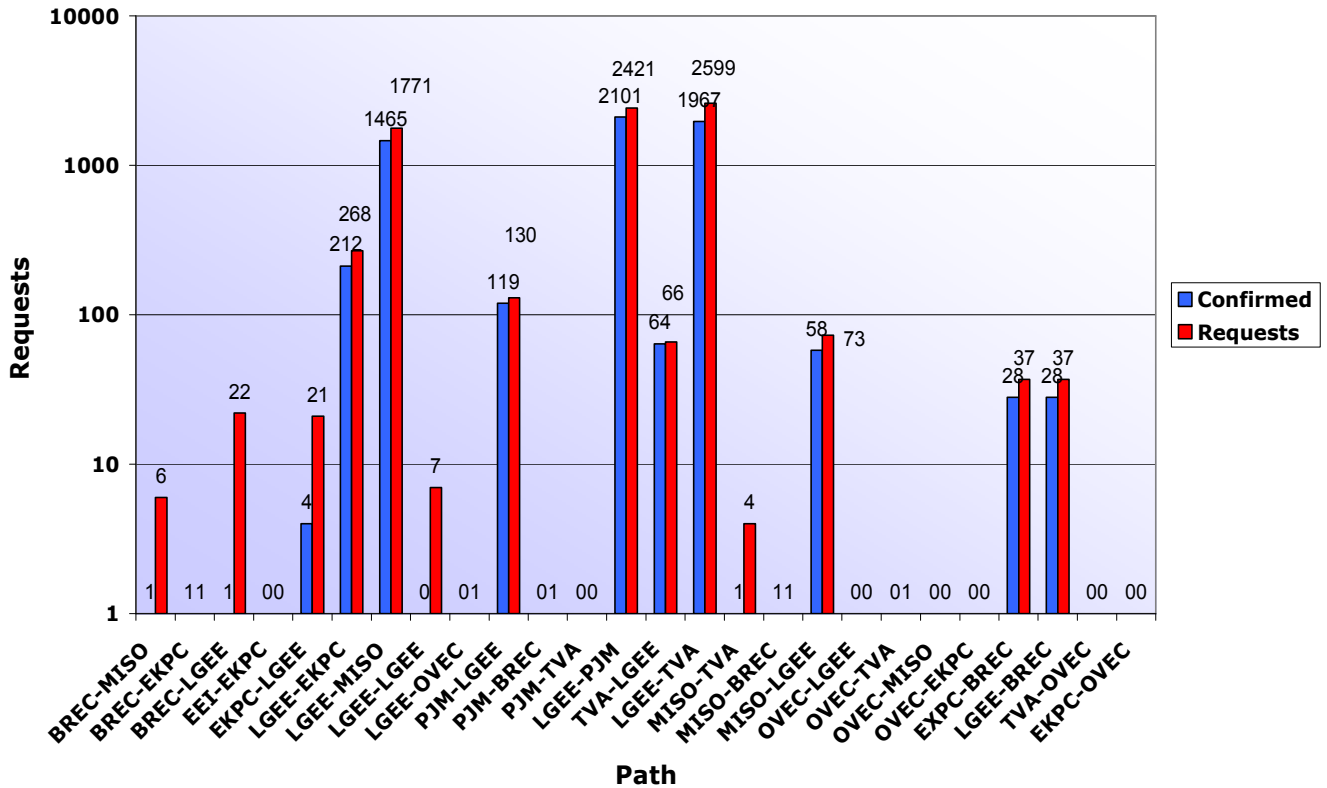


Figure 4

Non-Firm Requests by Path
September 1, 2006 - February 28, 2007



3.2 Transmission Scheduling

The ITO validates all scheduling data via Open Access Technology International (OATI) software and denies any scheduled transmission service requests that do not meet certain criteria and requirements. The criteria include, among other things, timeliness and accuracy of specific required data. The ITO is also charged with recognizing potential hoarding events that have occurred on the transmission system. The ITO takes the necessary steps to monitor scheduling activities through a monthly assessment of Retracted Firm capacity, Withdrawn Firm capacity, and Annulled Firm reservations. Any scheduling practices that meet this criteria or any activity that the ITO deems detrimental to the market will be reported to FERC in this, and in forthcoming semi-annual reports. Section 3.3 below provides a detailed analysis of potential hoarding events on the LG&E/KU system during this reporting period.

3.3 Transmission Hoarding

The ITO is charged with identifying activities that potentially result in transmission capacity hoarding on the LG&E/KU system. The following information was used to identify potential transmission hoarding behavior: unscheduled Firm reservations, retracted Firm reservations, withdrawn Firm reservations, redirected Firm reservations, and unconfirmed reservations. These five categories are used to determine potential hoarding issues by comparing the reservation practices of customers to the scheduling practices of the same customers. Paths that had no data involving the identified criteria during the current reporting period are not listed in the respective tables below.

Table 1 shows the amounts in MWhs the amount of unscheduled Firm service by month by path.

Table 1

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

First Reporting Period Ending February 28, 2007

(All values presented in MWh)

PATH	Status in MW Hours	Sep	Oct	Nov	Dec	Jan	Feb
EKPC/LGEE	Reserved (MWh)	2034976	2148472	2045040	2148432	2148672	14440
	Scheduled (MWh)	0	1212	0	0	0	0
	Unscheduled	2034976	2147260	2045040	2148432	2148672	14440
LGEE/EKPC	Reserved (MWh)	82225	85560	82800	162416	95453	1090
	Scheduled (MWh)	0	0	0	0	8900	400
	Unscheduled	82225	85560	82800	162416	86553	690
LGEE/LGEE	Reserved (MWh)	5634915	5863464	5674320	5863464	5863464	39405
	Scheduled (MWh)	0	0	0	0	0	0
	Unscheduled	5634915	5863464	5674320	5863464	5863464	39405
LGEE/MISO	Reserved (MWh)	300239	289270	133141	342090	191330	1170
	Scheduled (MWh)	155550	116125	107615	162424	129875	944
	Unscheduled	144689	173145	25526	179666	61455	226
LGEE/PJM	Reserved (MWh)	6024	13752	0	47140	5204	0
	Scheduled (MWh)	2778	8250	0	14520	3397	0
	Unscheduled	3246	5502	0	32620	1807	0
MISO/LGEE	Reserved (MWh)	7150	7440	7200	7440	7440	50
	Scheduled (MWh)	3108	4383	3723	3836	3854	27
	Unscheduled	4042	3057	3477	3604	3586	23
OVEC/LGEE	Reserved (MWh)	157300	163680	158400	163680	163680	1100
	Scheduled (MWh)	72741	78357	64645	103334	79139	574
	Unscheduled	84559	85323	93755	60346	84541	526
OVEC/MISO	Reserved (MWh)	24310	25296	24480	25296	25296	170
	Scheduled (MWh)	18134	22456	20806	21410	21429	170
	Unscheduled	6176	2840	3674	3886	3867	0
TVA/LGEE	Reserved (MWh)	44330	46128	44640	46128	46128	310
	Scheduled (MWh)	7130	3345	6510	12648	8742	62
	Unscheduled	37200	42783	38130	33480	37386	248

Table 2 shows the amount in MWhs of retracted Firm service by month by path.

Table 2

Retracted Firm Capacity (MWh's) per Month by Path
 First Reporting Period Ending February 28, 2007

Path	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb
EKPC-LGEE			8					
GDDRDBAVNBSB			7416				750	
LGEE-EKPC							52	
LGEE-MISO							811	97
LGEE-OVEC	52							
LGEE-PJM			37	145				
LGEE-TVA				206	206			
MISO-TVA				318				
OVEC-EKPC				50				

Table 3 shows the amount in MWhs of withdrawn Firm service by month by path.

Table 3

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

Path	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
BREC-EKPC						52			
BREC-LGEE	100								
EKPC-LGEE			7130		10				
GDDRDBAVNBSB			333						
LGEE-EKPC								103	
LGEE-LGEE							3		
LGEE-MISO			641	3894	1798	401		103	
LGEE-OVEC	800	52							
LGEE-PJM	5			868					
LGEE-TVA				315	1			1	
MISO-LGEE			10						
OVEC-MISO			34						
PJM-LGEE	200								
TVA-LGEE		100							

To guard against hoarding of transmission capacity by Market Participants, the ITO will perform a monthly assessment of unscheduled reservations and redirected capacity. Recurring instances of unused and redirected transmission reservations and instances in which scheduling practices have potentially detrimental market significance will be documented. The ITO found no data where Firm capacity was redirected during the first reporting period of September 1, 2006 through February 28, 2007.

4. Reliability Coordination

In accordance with the Reliability Coordinator (RC) Agreement and LG&E/KU's OATT, TVA performs the reliability coordination functions for the LG&E/KU system. The Transmission Loading Relief (TLR) procedures initiated by the RC for congestion on LG&E/KU's system and the impact of those procedures are provided in Figures 6 and 7 below.

Figure 6

TLR Number of Events (Monthly)
September 1, 2006 - February 28, 2007

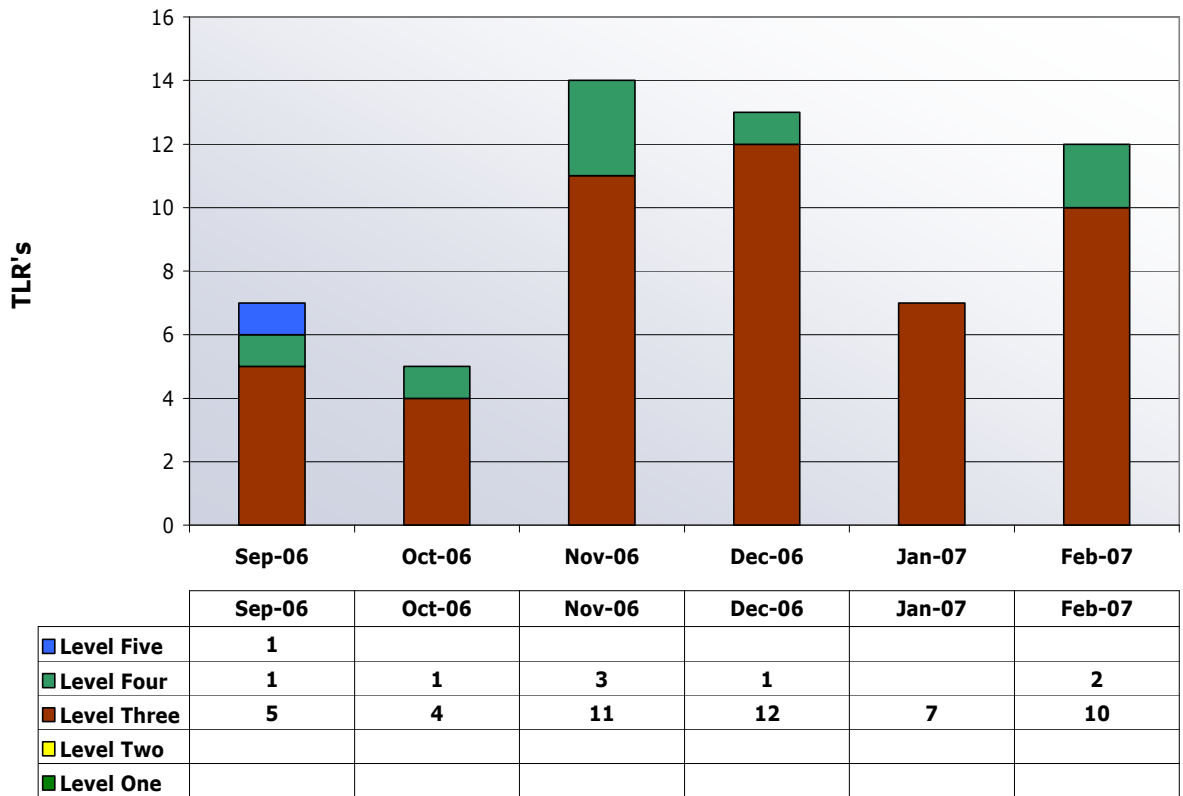
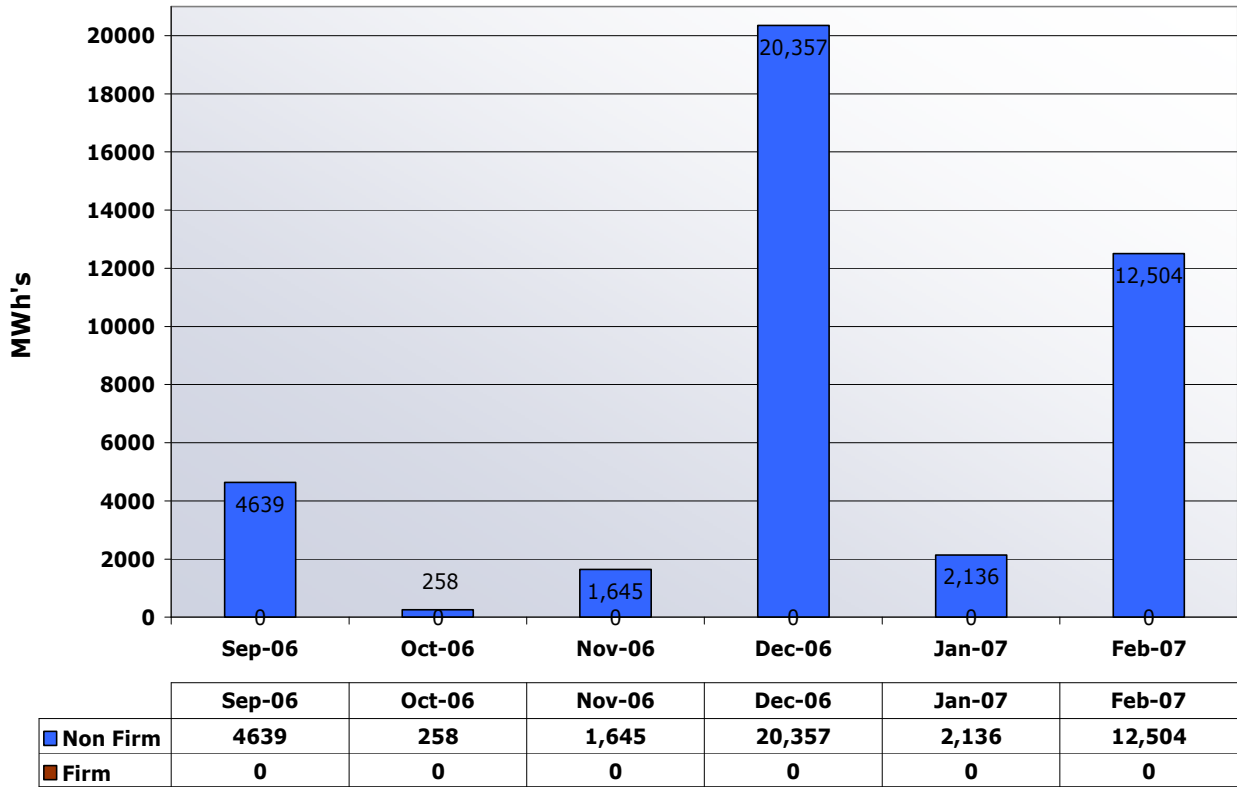


Figure 7

MWh's Curtailed (Monthly)

September 1, 2006 - February 28, 2007



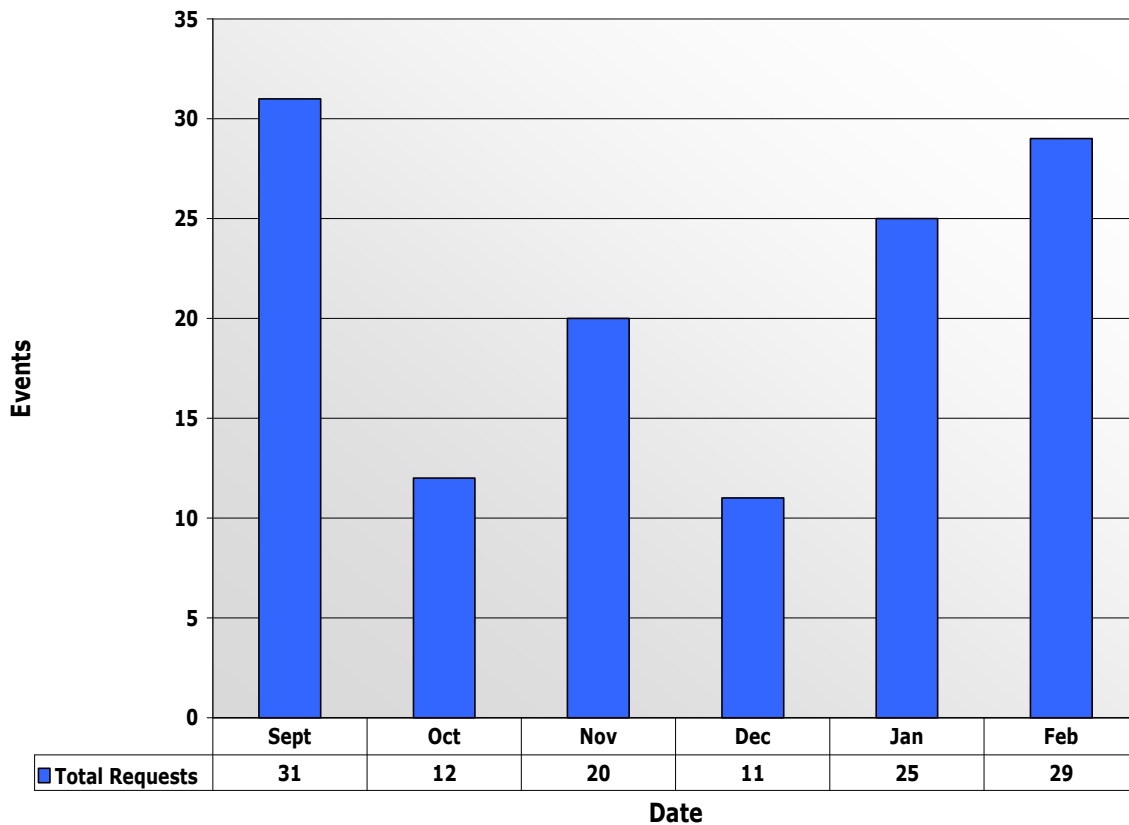
The increase in Non-Firm capacity curtailed in the month of December reflects the extended duration of two TLR procedures implemented for more than 18 hours on consecutive days. The curtailments were necessary to relieve congestion caused by line outages required to respond to emergency conditions.

5. Automatic Reserve Sharing (ARS)

The ITO monitors generator disturbance recovery in the form of an ARS function for the LG&E/KU transmission system. The ITO responds to generator contingency events by adjusting the Balancing Area scheduled interchange to supply the required reserves. Prior to December 31, 2006, the LG&E/KU system participated in the Reliability First Corporation (RFC) Reserve Sharing Group. On January 1, 2007, the LG&E/KU system became a participant in the Midwest Contingency Reserve Sharing Group. Figure 9 provides information on the number of ARS events that occurred during the first reporting period.

Figure 9

Reserve Sharing Events
September 1, 2006 - February 28, 2007



6. System Impact Studies (SIS) and Facilities Studies (FS)

Upon receipt of a transmission service request, the ITO 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 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, LG&E/KU shall use due diligence to complete the required study within 60 days with the ITO’s oversight. The ITO will notify the customer if LG&E/KU cannot complete the study 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.

Each of these studies determine the impact on the transmission system if the transmission service request is approved. If capacity exists to accommodate a portion of the requested Firm Point To Point service without upgrades and re-dispatch, the ITO must offer the available service. The ITO is not obligated to offer service that requires the addition of facilities or upgrades until such facilities are in place. The ITO must make reasonable efforts to assist customers in making the needed arrangements.

6.1 System Impact Studies

This section provides information on the SIS that have been produced by the ITO during the first reporting period.

6.1.1. SIS Requested

Table 5 below lists the number of SIS requested during the first reporting period while Table 6 illustrates the current status of all SIS that have been processed during the first reporting period.

Table 5

SIS Agreements (Date in Queue)

	Sept	Oct	Nov	Dec	Jan	Feb
	1	5	0	4	1	0

Table 6

SIS and Status
First Reporting Period Ending February 28, 2007

SIS Number	Oasis Number	Point of Receipt	Point of Delivery	Capacity Requested	Oasis Status
LGE-2006-001	1146748	EKPC	LGEE	43	WITHDRAWN
LGE-2006-001	1146754	EKPC	LGEE	77	WITHDRAWN
LGE-2006-001	1146759	EKPC	LGEE	16	WITHDRAWN
LGE-2006-001	1146761	EKPC	LGEE	16	WITHDRAWN
LGE-2006-002	1146796	EKPC	LGEE	11	CONFIRMED
LGE-2006-003	1146787	EKPC	LGEE	3	CONFIRMED
LGE-2006-004	1146788	EKPC	LGEE	15	CONFIRMED
LGE-2006-005	AAA	EPKC			STUDY
LGE-2006-006	1175340	MISO	LGEE	111	STUDY*
LGE-2006-007	1173599	LGEE	MISO	52	CONFIRMED
LGE-2006-008	1161492	LGEE	MISO	62	REFUSED
LGE-2006-009	1173605	LGEE	PJM	52	CONFIRMED
LGE-2006-010	1173600	LGEE	MISO	52	REFUSED
LGE-2006-010	1173602	LGEE	MISO	52	REFUSED
LGE-2006-010	1173603	LGEE	MISO	52	REFUSED
LGE-2006-011	1192425	LGEE	LGEE	175	STUDY
LGE-2006-012	1196127	LGEE	LGEE	76	STUDY
LGE-2006-013	1200862	LGEE	LGEE	10	STUDY
LGE-2006-014	1200866	LGEE	LGEE	19	STUDY
LGE-2006-015	1200925	LGEE	LGEE	17	STUDY
LGE-2006-016	1200929	LGEE	LGEE	19	STUDY
LGE-2007-001	1203285	LGEE	LGEE	3	CONFIRMED
LGE-2007-001	1213098	LGEE	LGEE	11	STUDY
LGE-2007-002	1214948	LGEE	LGEE	9	STUDY
LGE-2007-003	1230879	LGEE	LGEE	5	STUDY

* Study LGE-2006-006: SIS Completed and proceeded to FS

6.1.2 Completed Studies and Studies in the Queue

The ITO completed seven (7) SIS during the reporting period. The ITO also had ten (10) studies in the queue at the end of the first reporting period on February 28, 2007.

6.2 Facility Studies

As discussed above, FS are performed by LG&E/KU. A total of three (3) FS were completed from September 1, 2006 through February 28, 2007. The OASIS reservations that were confirmed as a result of these studies and the specific study information are provided in Table 7 below.

Table 7

Summary of Facility Studies

Oasis Number	Point of Receipt	Point of Delivery	Capacity Requested	Start Date	Stop Date
1146787	EKPC	LGEE	3	11/30/2007	11/30/2013
1146796	EKPC	LGEE	11	9/1/2006	12/31/2015
1146788	EKPC	LGEE	15	5/1/2007	5/1/2013

7. Expansion Planning Process

The expansion planning process was discussed at the Stakeholder Meeting on December 7, 2006 in Louisville, KY. LG&E/KU submitted its expansion plan in early January 2007 for the ITO Staff to review. The ITO is performing an independent evaluation of the LG&E/KU expansion plan to assess compliance with applicable reliability criteria. Once any constraints or contingencies causing overloads are identified, they will be cross-referenced with the planned projects included in LG&E/KU's expansion plan. The ITO will submit a report of this evaluation when it is completed to LG&E/KU. Currently, ITO engineers are gathering information and data to evaluate the expansion planning power models. A complete list of approved capital projects will be ready by the expansion planning summit to be held in May 2007.

8. Regulatory

E.ON U.S. LLC has filed at FERC a request to amend the tariff to incorporate a Feasibility Assessment Service to be administered by SPP. This filing which is on Oasis states “[t]he Tariff Amendments will govern a new Feasibility Analysis Service (“FAS”) under the OATT. The FAS will provide a preliminary estimate of the nature of, potential costs, and time frame associated with system upgrades to Transmission Customers or Network Customers who request Network Integration Service (“NITS”) (hereinafter, collectively referred to as “Requesting Customers”). Because a Feasibility Analysis provides only a preliminary estimate, the results of such analysis are not binding on either the Requesting Customer or LG&E/KU’s Independent Transmission Organization (“ITO”), Southwest Power Pool, Inc. (“SPP”).”

9. Interconnection Request

An Interconnection Customer shall submit to the ITO an Interconnection Request in the form of Appendix 1 to the Large Generator Interconnection Procedures and a refundable deposit of \$10,000. The ITO shall apply the deposit toward the cost of an Interconnection Feasibility Study. An Interconnection Customer shall submit a separate Interconnection Request for each site and may submit multiple Interconnection Requests for a single site. An Interconnection Customer must submit a deposit with each Interconnection Request even when more than one request is submitted for a single site. An Interconnection Request to evaluate one site at two different voltage levels shall be treated as two Interconnection Requests. At an Interconnection Customer's option, the ITO and Interconnection Customer will identify and evaluate alternative Point(s) of Interconnection and configurations at the scoping meeting to attempt to eliminate alternatives in a reasonable fashion given the resources and information available. An Interconnection Customer will select the definitive Point(s) of Interconnection to be studied no later than the execution of the Interconnection Feasibility Study Agreement. The ITO received two requests for interconnection service during the current reporting period. Those requests are currently in the scoping phase.

10. Stakeholder Issues/ Concerns

Pursuant to section 3.2 of Attachment L in LG&E/KU's OATT, the ITO shall address any issues or concerns expressed by stakeholders in the ITO Semi-Annual Report to the Commission. Below is a summary of the dispute cases opened during the first reporting period and their current status.

10.1 Incident(s)

Incident #5315 -Opened: October 27, 2006 09:09. Closed: November 27, 2006 12:56, Duration: 31:03:47

Description: Customer requested an investigation into the ITO's response to a request for service. Customer believed the request was initially refused and later approved.

Resolution: The ITO conducted an audit of the transmission service request and found that the request was not denied in the OASIS system. The results of the transmission service request audit were sent to the customer for their review. The customer expressed their satisfaction with the results of the dispute resolution during a conference call.