



**Independent Transmission
Organization (ITO) for LG&E/KU
Semi-Annual Report
September 2007 – February 2008**

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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.

2. ITO Reporting

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 November 15-16, 2007. This meeting was attended by twenty (20) stakeholders. The agenda, meeting presentations, and meeting notes can be found on SPP's website at

<http://www.spp.org/section.asp?group=1130&pageID=27>.

2.2 System Impact Studies (SIS), Facilities Studies (FS) and Feasibility Assessment Studies (FAS)

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, FS and FAS 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)

| Sept | Oct | Nov | Dec | Jan | Feb |
|------|-----|-----|-----|-----|-----|
| 3 | 2 | 0 | 5 | 3 | 1 |

Table 2

SIS and Status
Reporting Period Ending February 29, 2008

| SIS Number | Oasis Number | Point of Receipt | Point of Delivery | MW Requested | Oasis Status |
|--------------|--------------|------------------|-------------------|--------------|--------------|
| LGE-2007-024 | 1344267 | LGEE | LGEE | 17 | STUDY |
| LGE-2007-025 | 1346720 | EEI | LGEE | 110 | DECLINED |
| LGE-2007-026 | 1350469 | EEI | LGEE | 110 | DECLINED |
| LGE-2007-027 | 1361118 | LGEE | LGEE | 6 | STUDY |
| LGE-2007-028 | 1364469 | BREC | LGEE | 6 | STUDY |
| LGE-2007-029 | 1381528 | LGEE | LGEE | 10 | STUDY |
| LGE-2007-030 | 1386131 | MISO | LGEE | 206 | WITHDRAWN |
| LGE-2007-031 | 1387310 | BREC | LGEE | 6 | STUDY |
| LGE-2007-032 | 1387387 | TVA | LGEE | 71 | STUDY |
| LGE-2007-033 | 1389233 | LGEE | LGEE | 20 | STUDY |
| LGE-2008-001 | 1395739 | LGEE | LGEE | 22 | STUDY |
| LGE-2008-002 | 1405708 | BLUEGRASS | LGEE | 165 | STUDY |
| LGE-2008-003 | 1405710 | BLUEGRASS | LGEE | 165 | STUDY |
| LGE-2008-004 | 1407420 | MISO | LGEE | 204 | STUDY |

The ITO completed sixteen (16) SIS during the current reporting period. The ITO also had eleven (11) SIS in the queue at the end of the reporting period.

Table 3 shows that a total of nine (9) FS were completed by E.ON for the LG&E/KU transmission system from September 1, 2007 through February 29, 2008.

Table 3

Summary of Completed FS
Reporting Period Ending February 29, 2008

| Oasis Number | Point of Receipt | Point of Delivery | Capacity Requested | Start Date | Stop Date |
|--------------|------------------|-------------------|--------------------|------------|------------|
| 1196127 | LGEE | LGEE | 76 | 5/1/2008 | 5/1/2018 |
| 1200929 | LGEE | LGEE | 19 | 5/1/2008 | 5/1/2009 |
| 1276017 | LGEE | LGEE | 8 | 5/1/2008 | 5/1/2009 |
| 1295555 | LGEE | LGEE | 10 | 8/1/2008 | 8/1/2009 |
| 1297984 | LGEE | LGEE | 8 | 2/28/2009 | 2/28/2010 |
| 1311126 | LGEE | LGEE | 20 | 9/1/2008 | 9/1/2009 |
| 1344267 | LGEE | LGEE | 17 | 6/1/2009 | 6/1/2010 |
| 1334760 | EKPC | LGEE | 6 | 4/1/2009 | 12/30/2019 |
| 1332418 | LGEE | LGEE | 5 | 6/1/2008 | 6/1/2009 |

Table 4 below shows a total of three (3) FAS were requested during the last reporting period and illustrates the status of all FAS that have been processed during the current reporting period.

Table 4

Summary of FAS
Reporting Period Ending February 29, 2008

| FAS Number | Point of Receipt | Point of Delivery | Capacity Requested | Start Date | Stop Date | Status |
|-------------------|-------------------------|--------------------------|---------------------------|-------------------|------------------|---------------|
| LGE-2007-001 | LGEE | LGEE | 455 | 3/1/2010 | 3/1/2020 | Withdrawn |
| LGE-2007-002 | LGEE | LGEE | 455 | 3/1/2010 | 3/1/2020 | Complete |
| LGE-2007-003 | LGEE | LGEE | 40 | 9/1/2008 | 9/1/2018 | Complete |

2.2.3 Stakeholder Concerns

In the last Semi-Annual Report, it was reported that stakeholders had expressed concern that several of the SIS performed by the ITO have taken longer than 60 days to complete. In the past six months all of the SIS completed by the ITO were completed within the 60 day guideline.

2.2.3.1 E.ON Reliability Criteria – E.ON’s Reliability Criteria is no longer a concern of the stakeholders since the ITO has adopted study methodologies that allow the ITO to apply the Reliability Criteria in SIS process and still be able to complete studies within the 60 day guidelines.

2.2.3.2 Software Related Issues - E.ON US Transmission Planning uses General Electric PSLF software as their power system analysis software. The ITO uses Power Technologies, Inc. (PTI) PSS/E software. Although the diversity of analytical 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 PTI to develop customized software to resolve the output format issues. The ITO is also working with E.ON US to address other issues related to model conversion and results interpretation. In addition, E.ON has received additional training on the PTI software that is used by the ITO during this reporting period.

2.2.3.3 Redundant Service Options – At the November 2007 stakeholder meeting, several stakeholders expressed their desire to request redundant service options (dual-backup feeds). Multiple feeds into each service point reduce the probability of service outages. Since this is not a service that is currently encompassed by the LG&E/KU OATT, E.ON is exploring the options of offering this service. The ITO will continue to monitor this initiative and report to the stakeholders as progress is made.

2.3 Expansion Planning

2.3.1 Overview

Pursuant to Attachment P, the ITO is responsible for reviewing and approving all planning activities. As discussed in the last semi annual report, the ITO completed a multi-faceted review of all activities, policies, and inputs impacting the 2006 E.ON Transmission Expansion Plan.

2.3.2 Stakeholder Concerns

Stakeholders had expressed concern that the ITO's independent evaluation of E.ON's Transmission Expansion Plan had not been published. The ITO published its review and evaluation of the E.ON 2006 Transmission Expansion Plan in February 2008. The report can be found at:

https://sppoasis.spp.org/documents/swpp/LGEE_Transmission/ITO_Assessment_2006_EON_TEP.pdf

2.3.3 Other Planning Activities

E.ON released the 2007 Transmission Expansion Plan on January 8, 2008. The ITO plans to complete its review of the plan and release the preliminary results of this review prior to the May 2008 stakeholder meeting.

Additionally, E.ON published a draft Attachment K to the OATT on November 9, 2007. Attachment K reflects modifications to the Transmission Planning process in order to adhere to the planning principles issued in FERC Order No. 890. Stakeholders were requested to submit comments within 30 days. After all comments are compiled, E.ON will update Attachment K prior to the spring 2008 stakeholder meeting. The document can be found at:

http://www.spp.org/publications/Att_K_Rev_11092007.pdf

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 5, the ITO has worked on four (4) requests for interconnection service during the current reporting period.

**Table 5
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 | 1/12/2015 | 750 | Steam | FACILITY STUDY SET TO BEGIN |
| LGE-LGI-2007-002 | Central City | KY | LGEE | 6/1/2014 | 610 | Combined Cycle | IMPACT STUDY IN PROGRESS |
| 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 COMPLETED |

2.4.3 Stakeholder Concerns

The stakeholders have expressed concerns about delays in the LGIP process. Since the last report, the ITO has contracted with additional resources to assist in the LGIP study process. Additionally, the ITO completed its first LGIP SIS study and has made significant progress with subsequent studies. The ITO continues to be focused on the LGIP process and committed to improving the study times.

3. ITO Performance

In this section of the report, the ITO will address how its ability to perform its functions and responsibilities during the current reporting period has been impacted by issues under the LG&E/KU OATT. 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

On July 13, 2007, E.ON filed amendments to LG&E/KU's OATT in compliance with the requirements of Order No. 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 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 has completed implementation of the FAS process. To date, the ITO has processed three (3) FAS studies as detailed in Section 2.2.2 of this report.

3.1.3 Reliability Assessment Requirements

In the last Semi-Annual Report, it was reported that SPP and E.ON were negotiating for additional resources needed to comply with the requirement in Attachment C of the LG&E/KU OATT to conduct reliability assessments. Since that time, the ITO was able to further automate the study process and adequately apply E.ON's reliability criteria without the need for additional resources

3.2 TSRs

Transmission customers that want to submit TSRs on the LG&E/KU system must access 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 September 1, 2007 through February 29, 2008. Collected data illustrates an 88.06% overall confirmation rate during this time period.

Figure 1

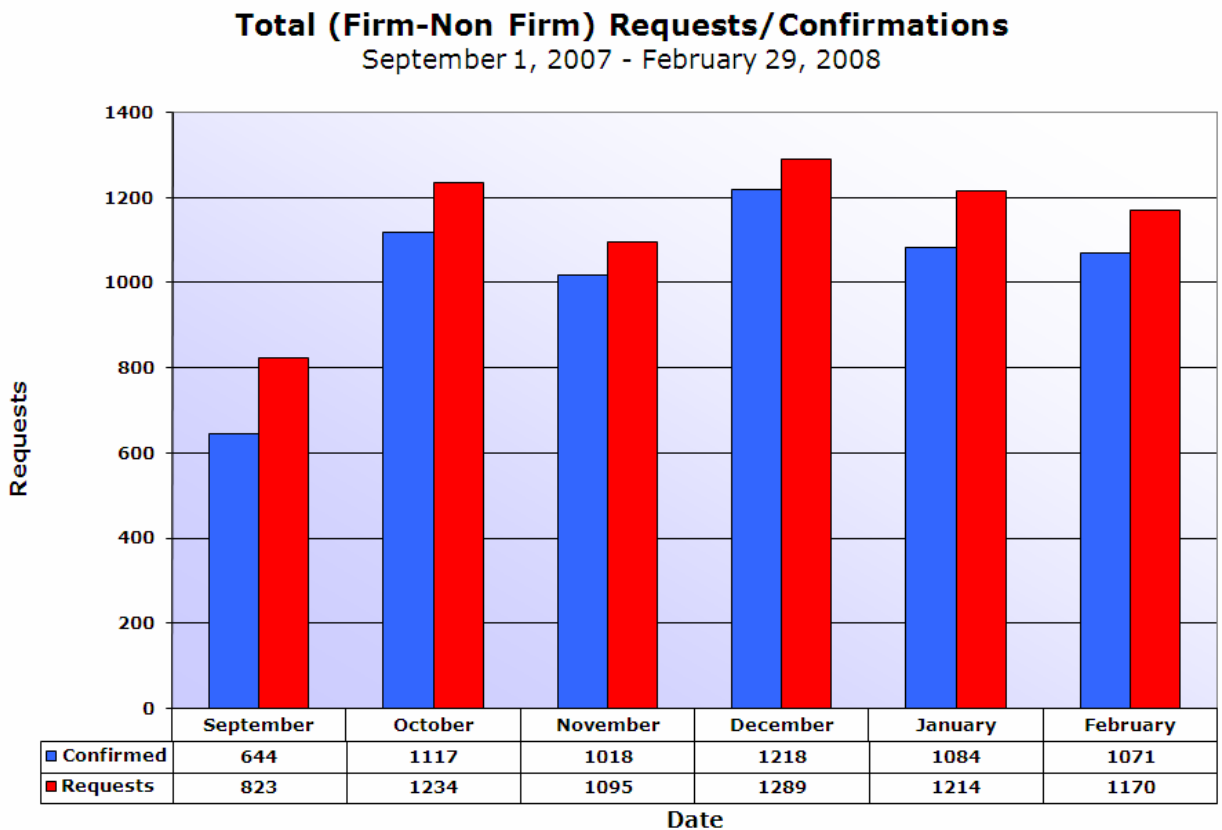
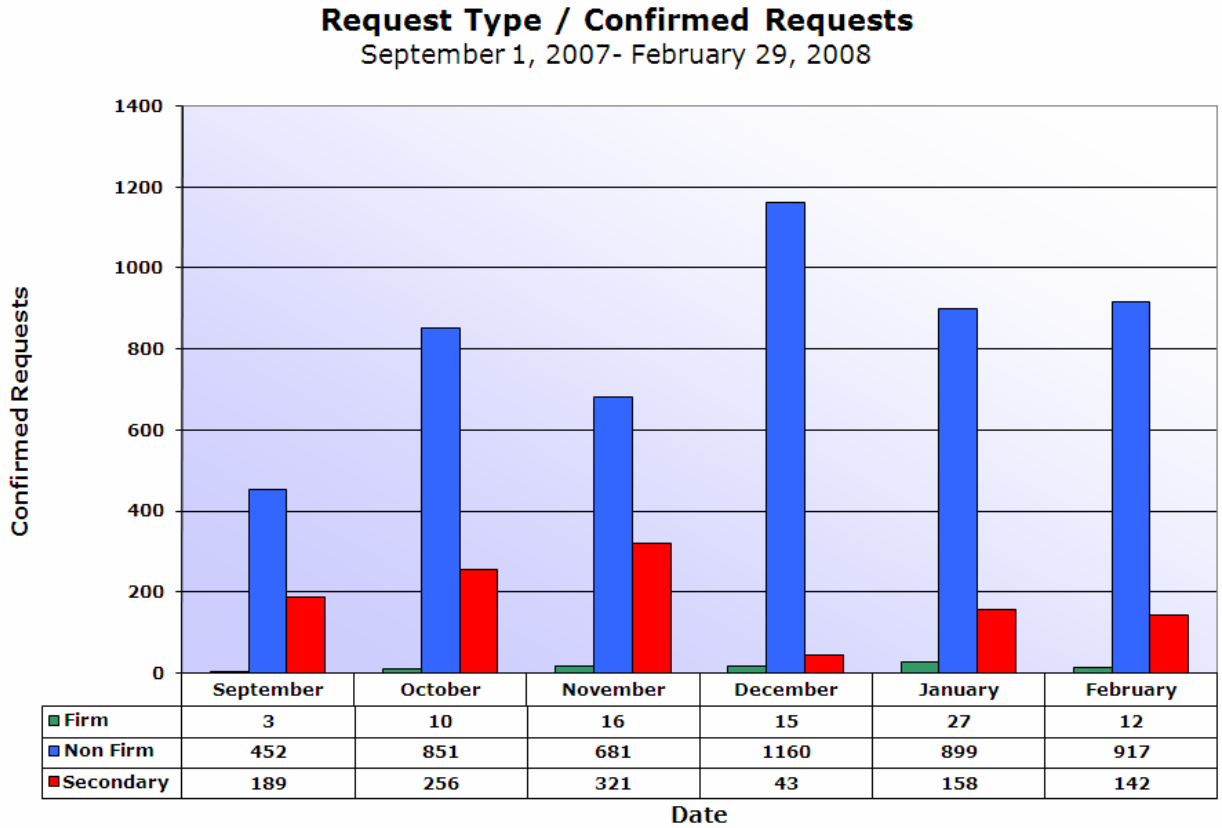


Figure 2 shows TSRs by type (Firm, Non-Firm and Secondary) that were submitted and confirmed by the ITO for the current reporting period.

Figure 2



The following figures (Figures 3 and 4) illustrate confirmed versus total requests for each particular path for both Firm and Non-Firm TSRs for the current reporting period.

Figure 3

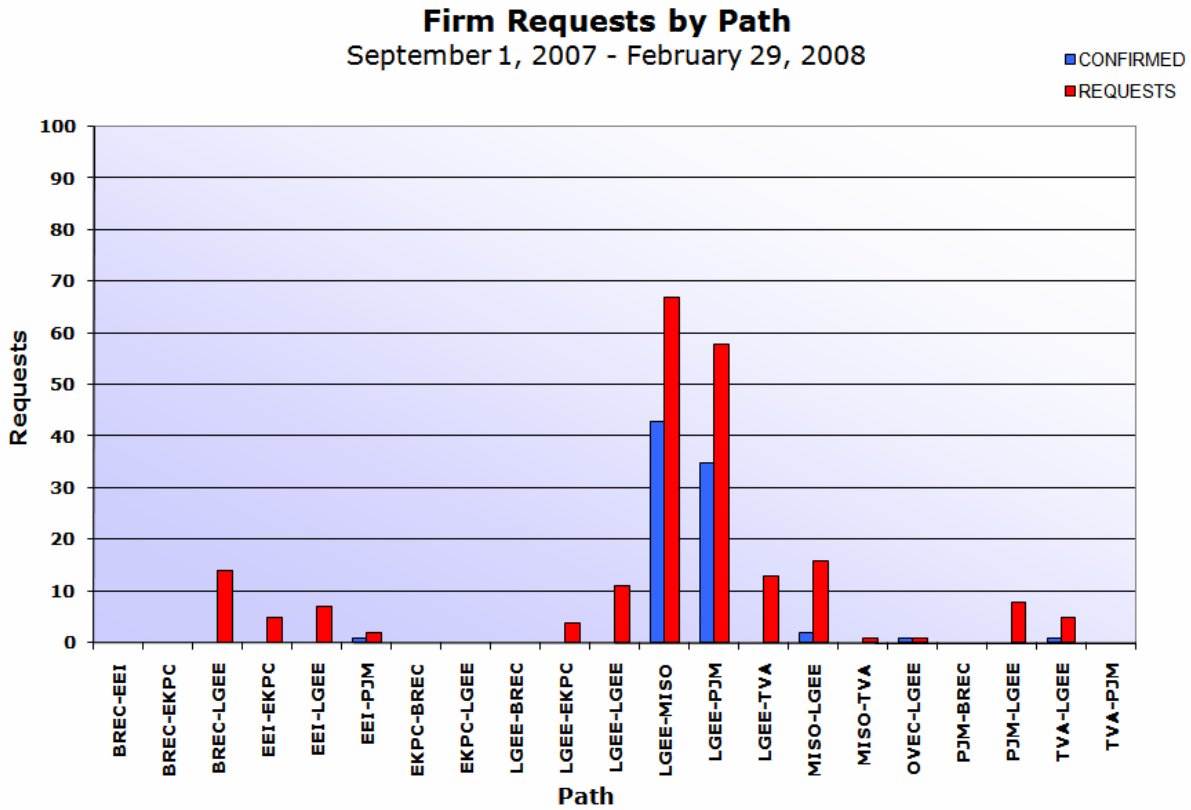
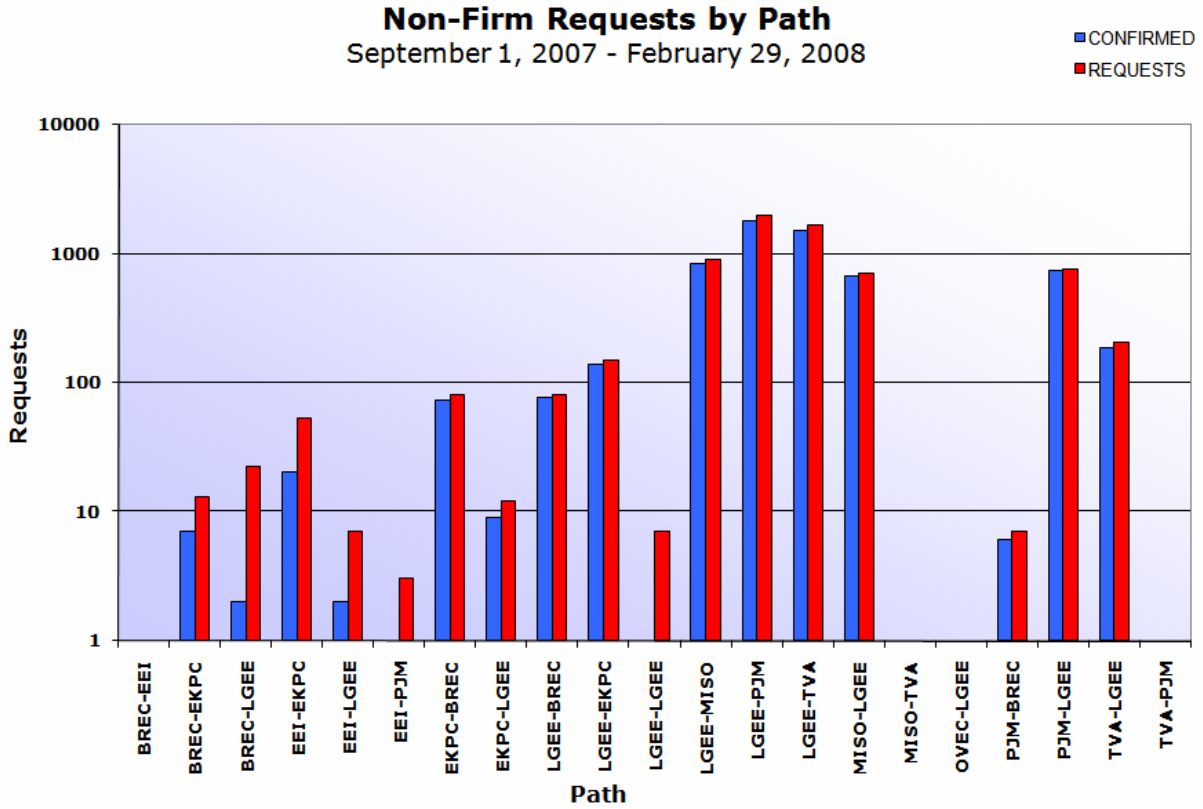


Figure 4



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: redirected firm reservations, withdrawn firm reservations, unconfirmed reservations, retracted 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 6 shows in MWh's the amount of unscheduled Firm service by month and by path.

Table 6

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

Reporting Period ending February 29, 2008

(All values presented in MWh)

| Path | Data | Month | | | | | |
|-----------|--------------------------|--------|-------|-------|-------|--------|-------|
| | | Jan | Feb | Sept | Oct | Nov | Dec |
| EEI/PJM | Sum of Reserved | 2400 | 0 | 0 | 0 | 0 | 0 |
| | Sum of Scheduled | 2300 | 0 | 0 | 0 | 0 | 0 |
| | Sum of Reserved Not Used | 100 | 0 | 0 | 0 | 0 | 0 |
| LGEE/EKPC | Sum of Reserved | 18600 | 17400 | 18000 | 18600 | 18000 | 18600 |
| | Sum of Scheduled | 0 | 0 | 0 | 0 | 2999 | 0 |
| | Sum of Reserved Not Used | 18600 | 17400 | 18000 | 18600 | 15001 | 18600 |
| LGEE/MISO | Sum of Reserved | 226992 | 98928 | 85680 | 93480 | 112872 | 77040 |
| | Sum of Scheduled | 116828 | 63241 | 49773 | 29005 | 26091 | 58719 |
| | Sum of Reserved Not Used | 110164 | 35687 | 35907 | 64475 | 86781 | 18321 |
| LGEE/PJM | Sum of Reserved | 75384 | 52296 | 48576 | 54768 | 52272 | 18432 |
| | Sum of Scheduled | 30303 | 18786 | 10178 | 21520 | 11995 | 11620 |
| | Sum of Reserved Not Used | 45081 | 33510 | 38398 | 33248 | 40277 | 6812 |
| MISO/LGEE | Sum of Reserved | 0 | 4800 | 0 | 0 | 0 | 0 |
| | Sum of Scheduled | 0 | 4313 | 0 | 0 | 0 | 0 |
| | Sum of Reserved Not Used | 0 | 487 | 0 | 0 | 0 | 0 |
| TVA/LGEE | Sum of Reserved | 46128 | 43152 | 0 | 0 | 0 | 0 |
| | Sum of Scheduled | 0 | 0 | 0 | 0 | 0 | 0 |
| | Sum of Reserved Not Used | 46128 | 43152 | 0 | 0 | 0 | 0 |

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

Table 7

Retracted Firm Capacity (MW's) per Month by Path
Reporting Period Ending February 29, 2008

| Path | Sept | Oct | Nov | Dec | Jan | Feb |
|-----------|------|-----|-----|-----|-----|-----|
| LGEE-MISO | | | | | 570 | |
| MISO-LGEE | | | | | | 100 |
| PJM-LGEE | | | | | | 100 |

Table 8 shows the amount in MW's of withdrawn Firm service by month and by path.

Table 8

Withdrawn Firm Capacity (MW's) per Month by Path
Reporting Period Ending February 29, 2008

| Path | Sept | Oct | Nov | Dec | Jan | Feb |
|-----------|------|-----|-----|-----|-----|-----|
| BREC-LGEE | | | | | | 8 |
| EEL-LGEE | 220 | | | | | |
| LGEE-MISO | | | | | 413 | |
| LGEE-PJM | | | 103 | | 310 | |
| LGEE-TVA | | | | | | 104 |
| MISO-LGEE | 110 | | | 206 | 207 | 103 |
| PJM-LGEE | | | | | | 103 |

In Order No. 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 No. 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 No. 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.