
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION CONDITIONALLY APPROVES THE WITHDRAWAL FROM MIDWEST ISO OF LG&E, KENTUCKY UTILITIES

The Federal Energy Regulatory Commission today conditionally approved a proposal by two Kentucky utilities to withdraw their transmission facilities from the Midwest Independent Transmission System Operator.

Louisville Gas and Electric Co. and Kentucky Utilities Co., the operating subsidiaries of E.ON US, will withdraw from the Midwest ISO and will delegate transmission tariff administrative duties to the Southwest Power Pool, serving as an Independent Transmission Organization. The proposal also calls for the federal Tennessee Valley Authority to serve as the companies' reliability coordinator.

"Today's order demonstrates the Commission's commitment to voluntary participation in regional transmission organizations. The Commission will honor contractual obligations regarding withdrawal rights," observed Commission Chairman Joseph T. Kelliher.

In approving the companies' exit from Midwest ISO, the Commission sought to ensure that the existing contractual rights of transmission service customers will continue to be honored. The Commission determined that with additional conditions, the withdrawal request meets the requirements of the Transmission Owners Agreement, which governs membership obligations and withdrawal rights for Midwest ISO members.

The proposal's "commitment to hold existing customers harmless" meets the contractual obligation in the Transmission Owners Agreement relating to withdrawals, the Commission said. "These existing customers will enjoy the same service and pricing that they would have been entitled to receive," if these companies had not withdrawn from the RTO, the Commission said. The proposal was conditioned to ensure that existing transmission customers in the utilities' control area will not have to pay additional transmission rates or ancillary service rates, the Commission noted.

The Commission accepted LG&E and Kentucky Utilities' proposal to delegate certain tariff administration duties to the Southwest Power Pool. The Commission directed the utilities to finalize arrangements regarding their proposal to rely on the Tennessee Valley Authority to serve as reliability coordinator. LG&E and Kentucky Utilities' proposal calls for them to rely on TVA's Joint Reliability Coordination Agreement with the Midwest ISO and PJM Interconnection to address interregional coordination and seams issues.

In order to provide sufficient stability to the companies' transmission system, the Commission directed the companies to clearly identify the responsibilities and protocols for the utilities, Southwest Power Pool and TVA.

The Commission's order also addressed remedies for merger-related market power concerns that may arise. The Commission approved the merger of the two Kentucky utilities in 1997, based in part on the utilities' commitment to relinquish control of their transmission facilities to the Midwest ISO.

The operational independence of the Southwest Power Pool is a critical element in considering the utilities' withdrawal from the Midwest ISO, the Commission said. The companies' proposal that their transmission system be operated by an Independent Transmission Organization and a reliability coordinator would generally address any vertical market concerns, with additional independence requirements. "[I]ndependent, non-market participant transmission planning is essential to mitigating, over the long-term, the vertical market power concerns..." the Commission stated in today's order.

The Commission accepted the Kentucky utilities' proposed exit fee methodology and directed the companies to file their final exit fee calculation within 30 days after their withdrawal from the Midwest ISO.

The Commission dismissed the proposed mechanism for LG&E and Kentucky Utilities to recover system expansion costs and transmission upgrades from individual customers, deeming it "premature."

The Midwest ISO, a not-for-profit corporation and Commission-approved regional transmission organization, independently operates the Midwest ISO transmission system, which covers all or part of 15 states, including Kentucky, as well as the Canadian province of Manitoba, with 97,000 miles of transmission lines.

Until last year, E.ON US, a U.S. subsidiary of the Düsseldorf, Germany-based energy company E.ON, was known as LG&E Energy.