



PPL companies

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December 1, 2010

Subject: Request for Proposals to Sell Capacity and Energy (RFP)

Dear Colleague in Development, Marketing and Trading of Electrical Power,

In order to meet pending environmental regulations and future load growth, Louisville Gas and Electric Company and Kentucky Utilities Company (the “Companies”) are evaluating alternatives means to provide least-cost firm generating capacity and energy to our customers. To this end, the Companies are requesting proposals from parties wishing to sell capacity and energy that will qualify as a Designated Network Resource (DNR) either as an owned asset by the Companies or a Power Purchase Agreement with the Companies. The Companies will consider offers that are reliable, feasible and represent the least-cost, including cost for transmission service and upgrades and voltage support, means of meeting our customers’ energy needs. The Seller should make its proposal as comprehensive as possible so that the Companies may make a definitive and final evaluation of the proposal’s benefits to its customers without further contact with the Seller. However, the Companies reserve the right to request additional information. Any failures to supply the information requested will be taken into consideration relative to the Companies’ internal evaluation of cost, risk, and value.

This inquiry is not a commitment to purchase and shall not bind the Companies or any subsidiaries of LG&E and KU Energy LLC in any manner. The Companies in their sole discretion will determine with which Respondent(s), if any, it wishes to engage in negotiations that may lead to a binding contract. The Companies shall not be liable for any expenses Respondents incur in connection with preparation of a response to this RFP. The Companies will not reimburse Respondents for their expenses under any circumstances, regardless of whether the RFP process proceeds to a successful conclusion or is abandoned by the Companies at their sole discretion.

1. **Background** - This RFP is being issued in order to evaluate alternatives for meeting existing and pending EPA regulations and to meet future load growth. All alternatives (including any of the Companies' self-build options) will be evaluated in the context of meeting customers' load in a least-cost manner. If the Companies determine that a proposal is in the best interest of the Companies' customers, the Companies will enter into negotiations which may lead to the execution of definitive agreements. The Companies will consider all applicable factors including, but not limited to, the following to determine the lowest total reasonable cost: (i) the terms of the purchased power proposal or facility or asset sale; (ii) Seller's creditworthiness; (iii) if applicable, the development status of Seller's generation facility including, but not limited to, site chosen, permitting, and transmission; or the operating history of Seller's generation facility; (iv) the degree of risk as to the availability of the power in the timeframe required; (v) the anticipated reliability of the power, particularly at times of winter and summer peak; and (vi) all other factors such as the cost of interconnection or transmission that may affect the Companies or their customers. The Companies are committed to implementing the best overall long-term solution for their customers.

2. **Requirements** - The Companies are interested in Power Purchase Agreements ("PPA"), Tolling Agreements ("TA") or Build Own Transfer Agreements ("BOT"), or alternative power supplies (combined "Supply Agreements") for minimum quantities of 1 MW up to a total of 700 MW of firm summer and winter capacity and associated energy per facility or offer with preference given to offers of 50 MWs or greater. The power being proposed must be generated from a defined source, a specific unit(s) or system that will qualify as a DNR and supply capacity/energy during the peak demand of the Companies' customers (typical Midwest seasonal load characteristics). The delivery of capacity and energy should begin no earlier than January 1, 2014, but later start dates will be considered. While the Companies prefer longer term proposals, shorter terms will be considered. The Companies may procure more or less than 700 MW and may aggregate capacity and energy from multiple Sellers to meet its needs. A Seller offering power from a resource connected directly to the Companies' transmission system must conform to the Companies' Open Access Transmission Tariff (OATT) and must obtain in a timely manner an Interconnection Agreement for the facility.

3. **Key Terms and Conditions** - For a Supply Agreement, the Seller's proposal should include the proposed terms and conditions, which should include, where applicable to the Seller's proposal, among other things:
 - 3.1. Seller will guarantee all pricing and terms that affect pricing such as but not limited to heat rate, fuel cost, operation and maintenance cost, etc., for at least 120 days after the Proposal Due Date.

 - 3.2. Any Capacity Payments to the Seller will be based upon guaranteed capacity at the Summer Design Conditions. Unless the location of the Seller's facility justifies alternate conditions. Summer Design Conditions shall be the following.

- 3.2.1. Dry Bulb: 89°F
 - 3.2.2. Mean Coincident Wet Bulb: 79.33°F
 - 3.2.3. Relative humidity: 66%
- 3.3. Seller will guarantee the annual and seasonal availability and describe required maintenance outage schedule.
- 3.4. Seller should address in their proposal its remedies for failure to meet availability guarantees.
- 3.5. Seller will be responsible for any and all compliance related cost and fines (environmental, NERC, FERC, etc) incurred due to the non-compliance of the assets designated to supply power to the Companies.
- 3.6. After the evaluation of proposals is completed, the Companies will enter into negotiations on a timely basis if the Companies determine that a proposal is in their customer's best interests. Any subsequent contracts will be contingent on obtaining the necessary regulatory approvals.
- 3.7. The Companies termination rights will include, but may not be limited to: (i) failure to post or maintain required financial credit requirements, (ii) failure to meet key development and implementation milestones, (iii) failure to meet reliability requirements, and (iv) failure to cure a material breach under the Supply Agreement.
4. **Dispatching and Scheduling** (Required Proposal Content) - The Companies prefer flexibility in the utilization of the generation resource being offered by the Seller. The Companies desire, at the Companies' expense, to install equipment at the generator site to facilitate real time control/dispatch of generation to follow load changes and respond to system frequency changes. The Seller should state its desire and willingness to allow and cooperate with the Companies in establishing real-time control of generation.
5. **Ancillary Services** (Required Proposal Content) - Under a Supply Agreement, the Companies desire to have the unrestricted right to utilize all ancillary services associated with generation being offered by the Seller. The Seller should describe the ancillary service capability of its proposal e.g., black start capability, voltage support, load following, energy imbalance, spinning reserve, and supplemental reserve. The ancillary services that would be available to the Companies should not be limited to those defined in this paragraph. The Companies desire to have the unrestricted rights to any future ancillary services defined by the industry and capable of being provided by the generation capacity being offered. In the case where the Companies purchase

only part of the generation capacity from a unit, system or facility, then the Companies desire to have unrestricted rights to ancillary services on a prorated basis.

6. **Pricing** (Required Proposal Content) - The Seller's pricing must be a delivered price to the Companies' transmission system. The Companies will only be responsible for Network Integrated Transmission Service (NITS) on the Companies transmission system. Prices must be firm, representing best and final data and quoted in U.S. dollars. If pricing involves escalation or indexing, the details of such pricing, including the specific indices or escalation rates, must be included for evaluation.
 - 6.1. The Seller's proposal must provide the product and generation characteristics on the attached form. Pricing information can be provided on the form or separately in another format that is appropriate for the offer. The Seller is encouraged to provide as much information as possible to aid in the evaluation of the offer. These attached data forms may be utilized in any filings with regulatory agencies (such as the KPSC) related to this RFP.

7. **Delivery** (Required Proposal Content) - The Companies consider reliable power delivery at the time of the typical summer and winter peak demand of its customers to be of the utmost importance. The delivery point is the Companies' transmission system. Under a Supply Agreement, Sellers would be responsible for providing firm transmission to the Companies' transmission system. The Seller is responsible for all costs associated with transmission interconnections and shall provide all studies and Interconnection Agreements. The Seller is responsible for all transmission including system upgrades up to the delivery point and shall provide all studies and Transmission Reservations/Agreements. All costs associated with interconnections and transmission up to the delivery point should be included in the Seller's pricing where appropriate under current FERC orders and rulings. Southwest Power Pool (SPP) is an Independent Transmission Operator that administers the Companies' OATT. Tennessee Valley Authority (TVA) serves as the Companies' Reliability Coordinator (RC). For purposes of the Companies' evaluation of the proposals, the Companies may estimate any transmission costs that are not supported by the appropriate studies including deliverability and the associated voltage support to the Designated Network Load ("DNL") of the Companies. If the Seller has not completed all required transmission studies, it is essential that the following information be provided in order for the Companies to evaluate the proposal:
 - Size of the unit
 - Point of interconnection to the grid
 - Impedance of the generator step-up transformer
 - Transient and sub transient characteristics of the generator

8. **Environmental** - For the sale of generation capacity and energy to the Companies under a Supply Agreement, the Seller would be responsible for obtaining all necessary permits and providing all credits and allowances needed to comply with the permit requirements for the life of the agreement, where permits, credits and allowances are applicable for the product being sold. Failure to obtain or comply with any environmental permit or governmental consent would not excuse nonperformance by Seller. The Companies require that Sellers provide the following information for evaluation:
- Unit heat rate, fuel specification, and control technologies employed.
 - Emissions rates for NO_x, SO_x, CO, CO₂, PM₁₀, and Hg.
 - Copy of air permit or permit application if available.
 - Timing and status of all permit applications including water withdrawal, wastewater disposal, fuel byproducts handling and disposal, etc.
9. **Development Status** – Seller shall provide a comprehensive narrative of the status of the development of any generation project intended to be used to meet Seller’s obligations to the Companies. Seller’s narrative shall include the following.
- 9.1. A comprehensive development and construction schedule,
 - 9.2. A listing of all required permits and governmental approvals and their status,
 - 9.3. A listing of all required electric interconnection and or transmission agreements and their status,
 - 9.4. A financing plan, and
 - 9.5. A summary of key contracts (fuel, construction, major equipment) to the extent that they exist.
10. **Other Information Requirements** - Sellers shall provide a complete description of the generation facilities that would be used to fulfill the Seller’s obligations to the Companies. The description should include the following:
- Seller’s operating experience with similar technology.
 - Guaranteed capacity rating at Summer Design Conditions
 - Guaranteed annual and seasonal availabilities including EFOR values and planned maintenance schedules.
 - Technology employed (combined cycle, pulverized coal, CFB, super-critical, etc.)
 - Plant location along with proof or status of ownership or control of site.
 - Zoning status of plant site.
 - If the plant site is subject to site approval by a governmental authority, provide a description of the approval status including a copy of the application. If approval has been granted, provide a copy of the approval.
 - Status of engineering and design work.
 - Key project participants including owners, operators, engineer/contractors, fuel suppliers

The Seller should also provide any additional information the Seller deems necessary or useful to the Companies in making a definitive and final evaluation of the benefits of the Seller's proposal without further interaction between the Companies and Seller.

11. **Financial Capability** - Should the Companies elect to enter into an agreement with a Seller who fails to meet its obligations at any point in time, the Companies' customers may be exposed to the risk of higher costs. Therefore, the Sellers will be required to demonstrate, in a manner acceptable to the Companies, the Seller's ability to meet all financial obligations to the Companies throughout the applicable development, construction and operations phases for the term of the Supply Agreement. Under no circumstances, should the Companies' customers be exposed to increased costs relative to the cost defined in an agreement between the Seller and the Companies.

11.1. At all times, the Seller will be required to maintain an investment grade credit rating with either S&P or Moody's or have a parent guarantee from an investment grade entity that meets the approval of the Companies.

11.2. Upon execution of the Supply Agreement, Sellers will be required to post a letter of credit ("LOC") to protect the Companies' customers in the event of default by the Seller. The exact amount of a LOC will be subject to approval by the Companies based upon the Companies' models. This amount shall take into account the cost of replacement energy and associated environmental cost with the production of replacement energy and any byproducts of such replacement energy. If the Companies draw down the LOC amount at any time, the Seller must replace the LOC to the original value within five days.

12. **Alternate Power Supplies** - Alternate power supply arrangements may include the acquisition of generation assets, existing generation facilities, projects under development, system firm products, or other power supply arrangements that meet the Companies' requirements described in this RFP. The Seller must make all transmission arrangements for the delivery of alternate power supply arrangements to the delivery point and include the cost for transmission in the pricing. Sellers interested in proposing alternative power supplies must provide all information specified in this document and applicable to the alternate power supply needed for the Companies to fully evaluate the proposal. Those Sellers proposing the sale of generation facilities should include the following:

- Complete description of the facilities included in the sale.
- Firm offer price
- Term sheet which identifies key terms and conditions
- Latest condition report
- Projected operating data including output, heat rate, and forced outage rate as appropriate
- Projected operating expenses and capital expenditures

- For existing facilities, provide historical operating data, operating expenses, and capital expenditures for a minimum of the latest five years or since the start of commercial operation if in commercial operation for less than five years.

13. **RFP Schedule** - All proposals must be complete in all material respects and be received no later than 4 p.m. EST on Friday, January 28, 2011. Email proposals must be followed up with a signed original within two business days.

RFP Issued	Wednesday, December 1, 2010
Proposals Due	Friday, January 28, 2011
Evaluation Completed	Friday, March 18, 2011

Proposals will not be viewed until 4 p.m. EST on Friday, January 28, 2011. After the evaluation of proposals is completed, the Companies will enter into negotiations on a timely basis if the Companies determine that a proposal is in their customer’s best interests. Any subsequent contracts will be contingent on obtaining the necessary regulatory approvals.

14. Treatment of Proposals

14.1. The Companies reserve the right, without qualification, to select or reject any or all proposals and to waive any formality, technicality, requirement, or irregularity in the proposals received. The Companies also reserve the right to modify the RFP or request further information, as necessary, to complete its evaluation of the proposals received.

14.2. Sellers who submit proposals do so without recourse against the Companies for either rejection by the Companies or failure to execute an agreement for purchase of capacity and/or energy for any reason. Sellers are responsible for any and all costs incurred in the preparation and submission of a proposal and/or any subsequent negotiations regarding a proposal.

15. **Confidentiality** - As regulated utilities, it is expected that the Companies will be required to release proposal information to various government agencies and/or others as part of a regulatory review or legal proceeding. The Companies will use reasonable efforts to request confidential treatment for such information to the extent it is labeled in the proposal as “Confidential.” Please note that confidential treatment is more likely to be granted if limited amounts of information are designated as confidential rather than large portions of the proposal. However, the Companies cannot guarantee that the receiving agency, court, or other party will afford confidential treatment to this information. Subject to applicable law and regulations, the Companies also reserve the right to disclose proposals to their officers, employees, agents, consultants, and the like (and those of its affiliates) for the

purpose of evaluating proposals. Otherwise, the Companies will not disclose any information contained in the Seller's proposal that is marked "Confidential," to another party except to the extent that (i) such disclosures are required by law or by a court or governmental or regulatory agency having appropriate jurisdiction, or (ii) the Companies subsequently obtain the information free of any confidentiality obligations from an independent source, or (iii) the information enters the public domain through no fault of the Companies.

16. **Contacts** - All correspondence should be directed to:

Charles A. Freibert, Jr.
Director Marketing
LG&E and KU Energy LLC
Energy Services
220 West Main Street
Louisville, KY 40202

E-mail: charlie.freibert@lge-ku.com
Phone: 502-627-3673

In closing, I look forward to your response by 4 p.m. EST on Friday, January 28, 2011, and the possibility of doing business to meet the Companies' future power needs. Your interest in this request is greatly appreciated. Please contact me if you have any questions and would like to discuss further. For immediate concerns in my absence, please contact Donna LaFollette at 502-627-4765.

Sincerely,



Charles A. Freibert, Jr.

LG&E and KU RFP Data Form

Note to bidder: Provide a separate term sheet for each different "Term of Contract" or capacity offering

Seller _____

Product and Generation Characteristics:

Proposal Description _____

Generation Source Description _____

Transmission Interconnection Point of the Source _____

Point of interconnection to the grid _____

Fuel Price (if applicable) _____

Start Date and Term of Contract _____

Summer Firm Capacity Amount _____ MW

Summer Maximum Dispatch Capacity Amount (if applicable) _____ MW

Summer Minimum Dispatch Capacity Amount (if applicable) _____ MW

Guaranteed Heat Rate (or heat rate curve) (if applicable) _____ Btu/kwh

Winter Firm Capacity Amount _____ MW

Winter Maximum Dispatch Capacity Amount (if applicable) _____ MW

Winter Minimum Dispatch Capacity Amount (if applicable) _____ MW

Output in 10 minutes _____ MW

Ramp capability _____ MW/minute

Start-up time to minimum capability _____

Start-up time to maximum capability _____

Minimum run time _____

Minimum down time _____

Constraints on production time (if applicable) _____

Forced Outage Rate _____ %

Guaranteed Availability _____

Planned Outage Schedule _____

Pricing Information (provide a separate pricing form if applicable):

Sale Price _____ or, Capacity Price _____ (\$/MW-yr)

Year of Capacity Price Quote _____

Capacity Price Escalation/Year _____

Energy Pricing (Provide energy pricing in one of the following formats)

1. Fixed Energy price over the term _____ (\$/MWh)
2. Escalating Price Over Term _____ (\$/MWh) escalating at _____ % per year
3. Production Cost: Variable O&M + Guaranteed Heat Rate * Fuel Price over Term
 - a. Variable O&M _____ (\$/MWh)
 - b. Guaranteed Heat Rate _____ (Btu/kwh)
 - c. Fuel Price _____

Note: Energy pricing to include all ancillary service costs, taxes and other fees necessary for delivery of the energy to the Delivery Point.