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Director  
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November 24, 2004

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PUBLIC SERVICE  
COMMISSION

Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40601

Case 2003-00266

**RE: Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Midwest Independent System Operator, Inc. Cost Recovery Mechanism**

Dear Ms. O'Donnell:

Thank you for your letter of November 22, 2004 concerning the November 1, 2004 letter from Mr. Beer and my correspondence of November 9, 2004.

Please accept my apologies for the confusion our correspondence may have caused. Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") are not planning to file applications for general adjustments in their existing rates pursuant to 807 KAR 5:001, Section 10. Rather, LG&E and KU are planning to file tariffs containing a rate mechanism to pass through new revenues and expenses attributable to retail native load that will result from the implementation of the Midwest Independent System Operator, Inc. ("MISO") Day 2 energy market tariff approved by the Federal Energy Regulatory Commission ("FERC") to be effective March 1, 2005. These costs and revenues are not already included in the existing rates of LG&E and KU.

LG&E's and KU's applications for approval of these new mechanisms will not be applications for general adjustments in existing rates pursuant to 807 KAR 5:001, Section 10. As a result, the requirements of 807 KAR 5:001, Section 10, requiring the designation of a historical test period or fully forecasting period are not applicable. The Commission has historically considered alternative cost recovery approaches to address unique situations.

Mr. Beer's letter was issued pursuant to 807 KAR 5:011 which prescribes rules under which each utility may file rate schedules. Mr. Beer's November 1, 2004 letter was given pursuant to 807 KAR 5:011, Section 8, which requires utilities with gross revenues greater than \$1 million to notify the Commission in writing of its intent to file a rate application at least four weeks prior to filing. That regulation does not require that such notice be served upon the

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Attorney General. However, please note that a copy of my November 9, 2004 letter was served upon the Attorney General.

Based on the foregoing, LG&E and KU submit that the letters of November 1 and 9, 2004, are in compliance with the Commission's procedure. Accordingly, LG&E and KU request the Commission to assign case numbers to the new tariff applications to be filed by LG&E and KU on December 1, 2004.

Should you have any questions or need any additional information, please contact me at your convenience.

Very truly yours,

A handwritten signature in cursive script that reads "Kent W. Blake".

Kent W. Blake

cc: Parties of Record in Case No. 2003-00266