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Via Overnight Mail

July 5, 2005

RECEIVED
JUL 06 2005
PUBLIC SERVICE
COMMISSION

Beth A. O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2004-00426 & 2004-00421

Dear Ms. O'Donnell:

Please find enclosed the original and twelve copies of the Application for Rehearing of Kentucky Industrial Utility Customers, Inc. filed in the above-referenced matters.

By copy of this letter, all parties listed on the attached Certificate of Service been served. Please place this document of file.

Very Truly Yours,



Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment

cc: Certificate of Service
A. W. Turner, Esq.

CERTIFICATE OF SERVICE

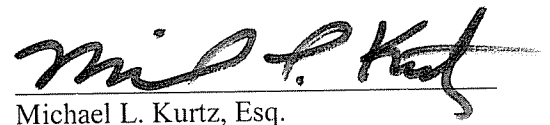
I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by overnight mail, (unless otherwise noted) to all parties on the 5 day of July, 2005.

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

JUL 06 2005

PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)
COMPANY FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO CONSTRUCT)
FLUE GAS DESULPHURIZATION SYSTEMS AND)
APPROVAL OF ITS 2004 COMPLIANCE PLAN FOR)
RECOVERY BY ENVIRONMENTAL SURCHARGE)

Case No. 2004-00426

and

THE APPLICATION OF LOUISVILLE GAS)
AND ELECTRIC COMPANY FOR APPROVAL)
OF ITS 2004 COMPLIANCE PLAN FOR)
RECOVERY BY ENVIRONMENTAL SURCHARGE)

Case No. 2004-00421

**APPLICATION FOR REHEARING OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**

Pursuant to KRS 278.400, Kentucky Industrial Utility Customers, Inc. ("KIUC") seeks rehearing of the Kentucky Public Service Commission's ("Commission") June 20, 2005 Order on the issue of how environmental surcharge costs should be allocated among ratepayers.

1. **The Commission's Order On Cost Allocation Did Not Consider Kentucky's Policy of Promoting Economic Development.**

Kentucky economic development policy is clear. In Chapter 154 of the Revised Statutes the Legislature created a formal economic development system in order to achieve the goal of, among other things, attracting and retaining jobs for its citizens. KRS 154.01-020 states in part:

"The mission of the Commonwealth's economic development system shall be to achieve the best quality of life for all Kentuckians through long-term strategic planning and implementation that fosters sustainable growth in jobs and incomes and enables communities, businesses, governments, and individuals to compete in the global marketplace."

The connection between this policy and low cost electric power has been articulated many times in Commission proceedings but was further confirmed by Kentucky Governor Fletcher who on February 7, 2005 issued Executive Order 2005-121 which states in part "*Kentucky's low-cost advantage in electricity is an important catalyst for economic growth and business development in Kentucky.*"

In its May 29, 2005 Brief, KIUC argued that low electric rates are vitally important to industrial ratepayers that compete in national and international markets. We argued that when industrial customers decide where to locate or expand existing operations, the cost of power is a primary consideration. This observation is supported by the Kentucky Cabinet for Economic Development which notes that a number of factors enter the decision of where to locate or expand industrial plants, but "*right up there near the top is always the issue of energy availability and cost.*"¹

The Commission's June 20, 2005 Order did not specifically address whether the approved rate allocation complies with Kentucky's economic development concerns. The Order did note that KIUC had not introduced any evidence showing that the competitors of KU's industrial customers were not required to similarly subsidize other ratepayers.² KIUC was unable to introduce such evidence due to the fact that the competitors of KU's industrial customers are a wide ranging group dispersed throughout the United States and the world that are often served on confidential special contract rates. Nevertheless, KIUC submitted evidence demonstrating that industrial customers in nearby states which have overall higher electric costs than Kentucky are able to receive rates that are competitive with Kentucky industrial customers due to the fact that such states do not require their industrial customers to subsidize other classes to the same extent as Kentucky.³ KIUC also submitted five unrebutted cost-of-service studies which all show that KU's current rates burden industrial customers with large subsidies.⁴

¹ Kentucky Cabinet for Economic Development, Whitepaper: Shedding Light on Energy: How Supply and Costs Affect Business Decisions, p. 3

² KPSC (6/20/2005) Order p. 30.

³ KIUC Brief p. 8.

⁴ Id. pp. 5-7.

The Commission's Order on environmental surcharge cost allocation does nothing to promote Kentucky's economic development goals. Although this consequence was not addressed in the Commission's Order, the environmental surcharge allocation approved by the Commission will have the effect of hindering Kentucky's ability to attract and retain important industrial jobs.

WHEREFORE, KIUC respectfully requests that the June 20, 2005 Order be changed consistent with Kentucky's economic development goals to adopt the allocation set forth in KIUC's Main Brief.

Respectfully submitted,



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Kurt J. Boehm, Esq.

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UTILITY CUSTOMERS, INC.**

July 5, 2005