



Kent W. Blake  
Director  
State Regulation and Rates

**FILED**  
DEC 20 2004  
PUBLIC SERVICE  
COMMISSION

LG&E Energy LLC  
220 West Main Street  
Louisville, Kentucky 40202  
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kent.blake@lgeenergy.com

December 20, 2004

Ms. Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602-0615

**FILED**  
DEC 20 2004  
PUBLIC SERVICE  
COMMISSION

**RE: The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of its 2004 Compliance Plan for Recovery by Environmental Surcharge**  
**Case No. 2004-00426**

Dear Ms. O'Donnell:

Enclosed please find an original and ten (10) copies of Kentucky Utilities Company's ("KU") Application and Testimonies, in two volumes, in the above-referenced docket. Volume I includes:

- KU's Application,
- Kent W. Blake's Testimony and Exhibit, and
- Sharon L. Dodson's Testimony and Exhibits.

Volume II includes:


- John P. Malloy's Testimony and Exhibits,
- Caryl M. Pfeiffer's Testimony,
- Valerie L. Scott's Testimony, and
- Robert M. Conroy's Testimony and Exhibits.

Also enclosed is an original and ten (10) copies of a Motion for Confidential Treatment regarding certain information provided in response to KU's Request for Proposals.

Ms. Elizabeth O'Donnell  
Page 2  
December 20, 2004

Should you have any questions concerning the enclosed, please do not hesitate to contact me. If you receive any requests for copies of the attached document(s), please refer the same to me directly; I will promptly provide such copies upon request.

Sincerely,

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

Kent W. Blake

cc: Hon. Elizabeth E. Blackford  
Hon. Michael L. Kurtz  
Hon. David J. Barberie



COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

**FILED**  
DEC 20 2004  
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 DESULFURIZATION )  
SYSTEMS AND APPROVAL OF ITS 2004 )  
COMPLIANCE PLAN AND RECOVERY BY )  
ENVIRONMENTAL SURCHARGE )

CASE NO. 2004-00426

APPLICATION

Kentucky Utilities Company ("KU"), pursuant to KRS 278.020(1) and 278.183 and 807 KAR 5:001, Sections 8 and 9, hereby petitions the Kentucky Public Service Commission ("Commission") by application to issue an order granting KU a Certificate of Public Convenience and Necessity ("CCN") for the construction of certain Flue Gas Desulfurization ("FGD" or "Scrubber") sulfur dioxide ("SO<sub>2</sub>") control technologies at Ghent Units 2, 3 and 4 and at the E.W. Brown Station and approving an amended Compliance Plan for purposes of recovering the costs of new and additional pollution control facilities through its Electric Rate Schedule ECR. These compliance costs are necessary for KU to meet the environmental requirements set forth in the Clean Air Act as amended, 42 U.S.C.A. §7401 *et seq* ("CAAA"), the Clean Water Act ("CWA"), and the Resource Conservation and Recovery Act ("RCRA"), as well as other federal, state or local environmental requirements which apply to coal combustion waste and by-products from facilities used for the generation of energy from coal. In support of this Application, KU states as follows:

1. Address: The Applicant's full name and business address is: Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507. KU's mailing address is P.O. Box 32010, Louisville, Kentucky 40232.

2. Articles of Incorporation: A certified copy of KU's Articles of Incorporation is already on file with the Commission in *In the Matter of: Joint Application of E.ON AG, PowerGen plc, LG&E Energy Corp., Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of an Acquisition*, Case No. 2001-104, and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

3. KU is a public utility, as defined in KRS 278.010(3)(a), engaged in generating, transmitting and distributing electric service. KU provides service to approximately 486,000 customers in communities and rural areas in the following counties in central, northern, southeastern and western Kentucky:

Adair	Edmonson	Jessamine	Ohio
Anderson	Estill	Knox	Oldham
Ballard	Fayette	Larue	Owen
Barren	Fleming	Laurel	Pendleton
Bath	Franklin	Lee	Pulaski
Bell	Fulton	Lincoln	Robertson
Bourbon	Gallatin	Livingston	Rockcastle
Boyle	Garrard	Lyon	Rowan
Bracken	Grant	Madison	Russell
Bullitt	Grayson	Marion	Scott
Caldwell	Green	Mason	Shelby
Campbell	Hardin	McCracken	Spencer
Carlisle	Harlan	McCreary	Taylor
Carroll	Harrison	McLean	Trimble
Casey	Hart	Mercer	Union
Christian	Henderson	Montgomery	Washington
Clark	Henry	Muhlenberg	Webster
Clay	Hickman	Nelson	Whitley
Crittenden	Hopkins	Nicholas	Woodford
Daviess			

4. A detailed statement of the facts and compliance requirements supporting this Application is set forth in the direct testimony and exhibits of the Company's witnesses; Kent W. Blake, Sharon L. Dodson, John P. Malloy, Caryl M. Pfeiffer, Valerie L. Scott and Robert M. Conroy, all of which accompany this Application and are incorporated by reference.

### **Request for Certificate of Public Convenience and Necessity**

5. Statement of Need: In support of KU's contention that the public convenience and necessity requires, or will require, the proposed construction, KU submits the following:

- a. Title IV of the Clear Air Act Amendments of 1990 imposed permanent reductions in sulfur dioxide emissions. KU's current SO<sub>2</sub> emissions are in excess of its annual Environmental Protection Agency ("EPA") allotment and KU has been using banked allowances to remain in compliance with its operating permits.
- b. To maintain compliance with current SO<sub>2</sub> emission limits, KU must reduce its emissions by approximately 55,000 tons per year.
- c. Clean Air Interstate Rule ("CAIR") was proposed by the EPA on December 17, 2003, with final adoption anticipated prior to March 2005. Under the EPA's initial proposed rule and a supplemental proposed rule published in May 2004, SO<sub>2</sub> emissions would be reduced by 3.6 million tons annually in 2010, and an additional 2 million tons annually when the rules are fully implemented in 2015. Under the EPA's proposed rule, nitrous oxide ("NO<sub>x</sub>") emissions would be reduced by 1.5 million tons annually in 2010 and an additional 1.8 million tons annually in 2015. The proposed emission levels represent a 70% reduction below current SO<sub>2</sub> emission levels and a 65% reduction below current NO<sub>x</sub> emission levels.
- d. To comply with the proposed CAIR regulations, KU will have to reduce SO<sub>2</sub> emissions by an additional 24,000 tons per year or obtain credits for the excess emissions, or both.

- e. Based on current emission levels and the impact of the proposed CAIR regulations, KU is seeking approval of a Certificate of Public Convenience and Necessity to begin construction of a project consisting of four scrubbers, as described herein.

6. Description of Proposed Construction: KU is requesting a CCN for the FGD projects listed below. Such projects qualify as “new” construction which requires prior approval from the Commission under KRS 278.020. The FGD construction timeframe for each unit is approximately 18-24 months, with some portions of the engineering and design being undertaken simultaneously. KU intends to bid and award the contracts for all of the FGD’s as a single package to capture significant efficiencies associated with project staging, procurement and labor scheduling. With this construction timeframe, construction of the first scrubber at Ghent Unit 3 will begin no later than mid 2005. No like facilities owned by others are located within the map area, and the proposed construction is not likely to be in competition with any other utility, corporation or person.

The table below shows the schedule and cost of construction of the four scrubbers for which KU is seeking a CCN:

<b>FGD Retrofit</b>	<b><u>Capital Cost</u> Millions \$</b>	<b>Completion Date</b>
Ghent 3	\$ 129.0	2007
Ghent 2	\$ 149.6	2008
Ghent 4	\$ 146.2	2009
Brown (entire plant)	\$ 234.2	2009
Total	\$ 659.0	

7. Permits from Public Authorities: As discussed in the testimony of Ms. Dodson, KU will submit to the Kentucky Environmental and Public Protection Cabinet (“KEPPC”) Division for Air Quality a request to modify existing operating permits to reflect the installation

of the proposed FGD technologies on all affected units in the KU generation fleet. KU will apply to the U.S. Army Corps of Engineers for a Section 10 Permit for river cell construction for expanded barge handling facilities at Ghent. Facilities associated with the storage and handling of gypsum and sludge waste at Ghent will require a modification to KU's Kentucky Pollutant Discharge Elimination System ("KPDES") from the Kentucky Division of Water for wastewater discharges associated with these projects. All structures will require construction permits from the Kentucky Department of Housing Building and Construction and the State Fire Marshal's Office.

8. Area Maps: Area maps showing the locations where the scrubbers are proposed to be constructed are attached hereto at the tab labeled 'Maps'.

9. Financing Plans: The proposed construction of the FGD technologies for which KU is seeking a CCN will cost approximately \$659.0 million. KU's proposed financing of such costs is discussed in the prepared direct testimony of Mr. Blake.

10. Estimated Cost of Operation: The estimated annual cost of operations of the proposed construction is \$13.5 million inclusive of all four FGDs.

11. To comply with the current and proposed SO<sub>2</sub> emission limits, KU is committed to meeting a June 1, 2007 deadline as an operational date for the first proposed scrubber at Ghent. Therefore, KU is in the process of initiating the engineering design phase, which precedes the actual construction.

**Request for Approval of KU's 2004 Environmental Compliance Plan  
for Recovery by Environmental Surcharge**

12. This Application and supporting testimony and exhibits are available for public inspection at each KU office where bills are paid. The Company is giving notice to the public of the proposed change to its Electric Rate Schedule ECR by newspaper publication and through a



bill insert in monthly billings to its customers. An initial Certificate of Notice and Publication is filed with this Application. A Certification of Completed Notice and Publication will be filed with the Commission upon the completion of this notice.

13. Pursuant to KRS 278.183, KU is entitled to recovery of its costs of complying with environmental requirements which apply to coal combustion wastes and by-products from facilities used to generate electricity from coal.

14. KU is adding four new pollution control projects to its Compliance Plan to reflect its plans for complying with environmental requirements related to SO<sub>2</sub> emissions and fly ash, bottom ash, and scrubber sludge disposal. The environmental regulations creating the need for these new and additional projects are shown in the 2004 Environmental Compliance Plan (“2004 Plan”) which is attached to this application and to the testimony of Mr. Malloy as Exhibit JPM-1. Such regulations are described more fully in the testimony of Ms. Dodson. The 2004 Plan identifies the appropriate regulatory approvals or permits which demonstrate that such projects fulfill the obligations under the applicable environmental regulations.

15. The new pollution control projects are:

- a. Ash Handling at Ghent Unit 1 and Ghent Station;
- b. Ash Treatment Basin Expansion at E.W. Brown Station;
- c. FGDs at all E.W. Brown Units and at Ghent Units 2, 3, and 4;
- d. Recovery of Costs Incurred in Purchasing Allowances.

The total capital cost of these new and additional projects in the 2004 Plan is estimated to be \$702.5 million.

16. The testimony of Mr. Blake presents an overview of KU’s 2004 Plan and requests the recovery of an overall rate of return that includes an 11.0% return on common equity.

17. The testimony of Ms. Dodson describes the environmental regulatory requirements faced by KU, including a description of the background surrounding the proposed CAIR and proposed mercury and fine particulate rules. Ms. Dodson's testimony also shows how the pollution control facilities in KU's 2004 Plan satisfy KU's environmental obligations.

18. The testimony of Mr. Malloy describes the methodology and results of the Companies' 2004 SO<sub>2</sub> Compliance Strategy study recommendations and attests that the projects included in the 2004 Plan are a reasonable method of meeting applicable environmental regulations. Mr. Malloy also provides the timeframe for construction, evidence as to the cost effectiveness of these projects and the estimated capital costs for the new and additional pollution control facilities.

19. The testimony of Ms. Pfeiffer describes the impact of switching fuels from KU's current reliance on high cost Eastern compliance coal to low cost Illinois Basis high sulfur coal. Ms. Pfeiffer also discusses concerns with increasing KU's reliance on Powder River Basin ("PRB") coal.

20. The testimony of Ms. Scott explains KU's reporting and accounting for the operation and maintenance expenses associated with the pollution control facilities described in Mr. Malloy's testimony and affirms that the environmental compliance costs KU proposes to recover through its surcharge are not already included in existing rates. Ms. Scott's testimony also explains the reporting of and accounting for emission allowance transactions.

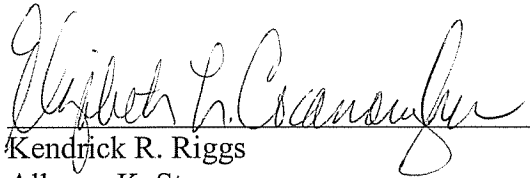
21. The testimony of Mr. Conroy explains how the surcharge for the 2004 Plan will be calculated and billed under KU's proposed revised Electric Rate Schedule ECR. Mr. Conroy's testimony explains the reasons for the proposed changes in the terms of the ECR Tariff and the proposed changes to the Monthly Filing Forms ES. Mr. Conroy's testimony further

affirms that the calculations will be consistent with the methods and methodologies previously approved by the Commission.

**WHEREFORE**, Kentucky Utilities Company requests the Commission enter an order before June 20, 2005: (1) granting KU a Certificate of Public Convenience and Necessity to construct the four FGD systems on E.W. Brown Units 1, 2 and 3 and Ghent Units 2, 3 and 4 as described herein; (2) approving KU's 2004 Plan consisting of three new capital projects and the emission allowance project to meet federal, state or local environmental regulations; (3) approving KU's revised Electric Rate Schedule ECR effective for service rendered on and after July 1, 2005; (4) approving KU's overall return on capital, including the return on common equity, as described herein; and (5) approving the reporting formats proposed by KU herein for use in each KU monthly surcharge filing beginning July 1, 2005.

Dated: December 20, 2004

Respectfully submitted,



Kendrick R. Riggs  
Allyson K. Sturgeon  
Ogden Newell & Welch PLLC  
1700 PNC Plaza  
500 West Jefferson Street  
Louisville, Kentucky 40202  
Telephone: (502) 582-1601

Elizabeth L. Cocanougher  
Senior Regulatory Counsel  
Louisville Gas and Electric Company  
220 West Main Street  
Post Office Box 32010  
Louisville, Kentucky 40232  
Telephone: (502) 627-4850

Counsel for Kentucky Utilities Company


**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and correct copy of the foregoing Application was served on the following persons on the 20<sup>th</sup> day of December 2004, via overnight delivery, postage prepaid:

Elizabeth E. Blackford  
Assistant Attorney General  
Office of the Attorney General  
1024 Capital Center Drive, Suite 200  
Frankfort, Kentucky 40601-8204

Michael L. Kurtz  
Boehm, Kurtz & Lowry  
36 East Seventh Street, Suite 1510  
Cincinnati, OH 45202

David J. Barberie  
Lexington-Fayette Urban County Government  
Department of Law  
200 East Main Street  
Lexington, Kentucky 40507

  
Counsel for Kentucky Utilities Company

# Compliance Plan

**KENTUCKY UTILITIES COMPANY  
2004 ENVIRONMENTAL COMPLIANCE PLAN**

<b>Project</b>	<b>Air Pollutant or Waste/By-Product To Be Controlled</b>	<b>Control Facility</b>	<b>Generating Station</b>	<b>Environmental Regulation*</b>	<b>Environmental Permit*</b>	<b>Actual or Scheduled Completion</b>	<b>Actual (A) or Estimated (E) Project Cost</b>
19	Fly & Bottom Ash	Ash Handling Equipment	Ghent Station	401 KAR Chapter 5	KPDES - KY0002038	2009	\$3.75 M (E)
20	Fly & Bottom Ash	Ash Treatment Basin (Phase I)	E.W. Brown Station	401 KAR Chapter 5	KPDES - KY0002020	2009	\$39.78 M (E)
21	SO <sub>2</sub>	Flue Gas Desulfurization	Ghent 2 Ghent 3 Ghent 4 E.W. Brown Station	Clean Air Act (1990)	Title V Operating Permit Ghent - V-97-025 E.W. Brown - (O-86-068)	2008 2007 2009 2009	\$149.57 M (E) \$129.02 M (E) \$146.15 M (E) \$234.19 M (E)
22	SO <sub>2</sub>	Emission Allowances	All Plants	Clean Air Act (1990)	Phase II Acid Rain Permits	2009	\$58.1 M (E)

\*Sponsored by Witness Dodson

# Statutory Notice

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>THE APPLICATION OF KENTUCKY UTILITIES</b>	)	
<b>COMPANY FOR A CERTIFICATE OF PUBLIC</b>	)	
<b>CONVENIENCE AND NECESSITY TO</b>	)	
<b>CONSTRUCT FLUE GAS DESULFURIZATION</b>	)	<b>CASE NO. 2004-00426</b>
<b>SYSTEMS AND APPROVAL OF ITS 2004</b>	)	
<b>COMPLIANCE PLAN AND RECOVERY BY</b>	)	
<b>ENVIRONMENTAL SURCHARGE</b>	)	

**STATUTORY NOTICE**

Kentucky Utilities Company (“KU”), by counsel, informs the Kentucky Public Service Commission (“Commission”) that it is engaged in business as an operating public utility, principally furnishing retail electric service within the Commonwealth of Kentucky.

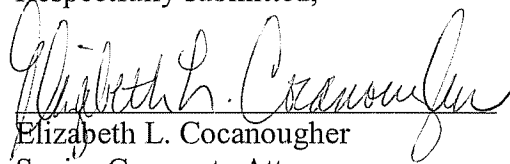
Pursuant to KRS 278.183, KU hereby gives notice to the Commission that, on this 20th day of December 2004, it files herewith its application to issue an order granting KU a Certificate of Public Convenience and Necessity (“CCN”) for the construction of certain Flue Gas Desulfurization (“FGD” or “Scrubber”) sulfur dioxide (“SO<sub>2</sub>”) control technologies at Ghent Units 2, 3 and 4 and at the E.W. Brown Station and approving an amended compliance plan for purposes of recovering the costs of new and additional pollution control facilities through its Electric Rate Schedule ECR.

Notice is further given that the stated effective date for Electric Rate Schedule ECR is July 1, 2005.



Submitted to the Commission this 20th day of December 2004.

Respectfully submitted,



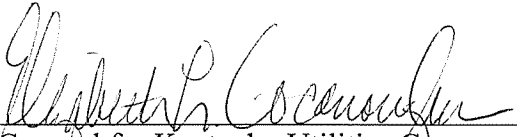
Elizabeth L. Cocanougher  
Senior Corporate Attorney  
Louisville Gas and Electric Company  
220 West Main Street  
Louisville, Kentucky 40202  
Telephone: (502) 627-4850

Kendrick R. Riggs  
Ogden Newell & Welch PLLC  
1700 PNC Plaza  
500 West Jefferson Street  
Louisville, Kentucky 40202  
Telephone: (502) 582-1601

Counsel for Kentucky Utilities Company

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies the original and ten copies of this statutory notice was hand delivered to Elizabeth O'Donnell, Executive Director, Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601, and a copy of this statutory notice was delivered via overnight delivery to Elizabeth E. Blackford, Assistant Attorney General, Office of Rate Intervention, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601; Michael L. Kurtz, Boehm, Kurtz & Lowry, 36 East Seventh Street, Suite 1510, Cincinnati, Ohio 45202; and David J. Barberie, Lexington-Fayette Urban County Government, Department of Law, 200 East Main Street, Lexington, Kentucky 40507 this 20th day of December 2004.

  
\_\_\_\_\_  
Counsel for Kentucky Utilities Company

# **Tariff Sheets with Revision Marks**

**ECR**

**Environmental Cost Recovery Surcharge**

**APPLICABLE**

In all territory served.

**AVAILABILITY OF SERVICE**

To all electric rate schedules.

**RATE**

The monthly billing amount under each of the schedules to which this mechanism is applicable, including the fuel clause, shall be increased or decreased by a percentage factor calculated in accordance with the following formula.

$$CESF = E(m) / R(m) \qquad \qquad \qquad MESF = CESF - BESF$$

MESF = Monthly Environmental Surcharge Factor  
CESF = Current Environmental Surcharge Factor  
BESF = Base Environmental Surcharge Factor

Where E(m) is the jurisdictional total of each approved environmental compliance plan revenue requirement of environmental compliance costs for the current expense month and R(m) is the revenue for the current expense month as set forth below.

**DEFINITIONS**

- 1) For all Plans,  $E(m) = [(RB/12) (ROR + (ROR - DR) (TR / (1 - TR)))] + OE$   
Where:
  - a) RB is the Total Environmental Compliance Rate Base.
  - b) Where ROR is the Rate of Return in Environmental Compliance Rate Base, designated as the overall all rate of return [cost of short term debt, long term debt, preferred stock, and common equity]
  - c) Where DR is the Debt Rate [cost of short term debt, and long term debt]
  - d) Where TR is the Composite Federal and State Income Tax Rate.
  - e) Where OE is the Operating Expenses [Depreciation and Amortization Expense, Property Taxes, Insurance Expense adjusted for the Average Month Expense already included in existing rates]. Includes operation and maintenance expense recovery authorized by the K.P.S.C. in Case Nos. 2000-439, 2002-146 and 2004-00426.
- 2) Total E(m) (sum of each approved environmental compliance plan revenue requirement) is multiplied by the Jurisdictional Allocation Factor to arrive at Net Jurisdictional E(m)
- 3) The revenue R(m) is the average monthly revenue, including base revenues and automatic adjustment clause revenues less Environmental Cost Recovery Surcharge revenues, for the Company for the 12 months ending with the current expense month.
- 4) Current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

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**Date of Issue: December 20, 2004  
Canceling Original Sheet No. 72  
Issued July 20, 2004**

**Issued By  
John R. McCall, Executive Vice President  
General Counsel and Secretary  
Louisville, Kentucky**

**Date Effective: With Service Rendered  
On and After July 1, 2005**

**Issued By Authority of an Order of the KPSC in Case No. 2004-00426 dated:**

# **Certificate of Notice**

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE 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 DESULFURIZATION ) CASE NO. 2004-00426  
SYSTEMS AND APPROVAL OF ITS 2004 )  
COMPLIANCE PLAN AND RECOVERY BY )  
ENVIRONMENTAL SURCHARGE )**

**CERTIFICATE OF NOTICE**

Pursuant to the Kentucky Public Service Commission's Rules Governing Tariffs effective August 4, 1984, I hereby certify that I am John R. McCall, Executive Vice President, General Counsel and Corporate Secretary, LG&E Energy Services Inc. for Kentucky Utilities Company ("KU" or "Company"), a utility furnishing retail electric service within the Commonwealth of Kentucky, which, on the 20th day of December 2004, filed an application to issue an order granting KU a Certificate of Public Convenience and Necessity ("CCN") for the construction of certain Flue Gas Desulfurization ("FGD" or "Scrubber") sulfur dioxide ("SO<sub>2</sub>") control technologies at Ghent Units 2, 3 and 4 and at the E.W. Brown Station and approving an amended compliance plan for purposes of recovering the costs of new and additional pollution control facilities through its Electric Rate Schedule ECR as required by KRS 278.183, as follows:

On the 20th day of December 2004, the same was delivered for exhibition and public inspection at the offices and places of business of the Company in the territory affected thereby, to-wit, at the following places:

Barlow	London
Campbellsville	Maysville
Carrollton	Middlesboro
Danville	Morehead
Earlington	Morganfield

Eddyville  
Elizabethtown  
Georgetown  
Greenville  
Harlan  
Lexington  
Lexington North

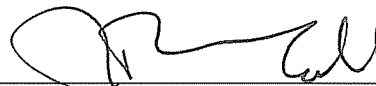
Mt. Sterling  
Paris  
Richmond  
Shelbyville  
Somerset  
Versailles  
Winchester

and that the same will be kept open to public inspection at said offices and places of business in conformity with the requirements of 807 KAR 5:011, Section 8.

That more than twenty (20) customers will be affected by said change by way of an increase in their bills, and that on the 7th day of December 2004, there was delivered to the Kentucky Press Association, an agency that acts on behalf of newspapers of general circulation throughout the Commonwealth of Kentucky in which customers affected reside, for publication therein once a week for three consecutive weeks beginning the week of December 13, 2004, a notice of the filing of KU's application, a copy of said notice being attached hereto. A certificate of publication of said notice will be furnished to the Kentucky Public Service Commission upon completion of same pursuant to 807 KAR 5:011, Section 8(2)(c).

In addition, Kentucky Utilities Company will include a general statement explaining the application in this case with the bills for all Kentucky retail customers during the course of their regular monthly billing cycle after the filing of this Application.

Given under my hand this 20th day of December, 2004.



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John R. McCall  
Executive Vice President, General Counsel  
and Corporate Secretary  
LG&E Energy Services Inc. for  
KENTUCKY UTILITIES COMPANY  
220 West Main Street  
Louisville, Kentucky 40202

NOTICE TO CUSTOMERS OF  
KENTUCKY UTILITIES COMPANY

RECOVERY BY ENVIRONMENTAL SURCHARGE OF KU'S 2004  
ENVIRONMENTAL COMPLIANCE PLAN

**PLEASE TAKE NOTICE** that on December 20, 2004, Kentucky Utilities Company ("KU") will file with the Kentucky Public Service Commission ("Commission") in Case No. 2004-00426, an Application pursuant to Kentucky Revised Statute 278.183 for approval of an amended compliance plan ("KU's 2004 Environmental Compliance Plan") for the purpose of recovering the capital costs of and operation and maintenance costs associated with new pollution control facilities, and the cost of emission allowances by way of assessment of an environmental surcharge on customers' bills beginning July 1, 2005, through KU's existing rate mechanism known as the environmental cost recovery surcharge or "Electric Rate Schedule ECR"

Compliance with all federal, state and local environmental regulations requires KU to continually build and upgrade equipment and or facilities required to continue to operate in an environmentally sound manner. Specifically, beginning in 2005, KU will begin to build new Flue Gas Desulfurization systems ("scrubbers") at the Ghent Generating Station at Ghent, Kentucky and the E.W. Brown Generating Station at Burgin, Kentucky to meet current environmental SO<sub>2</sub> emission limitations; and modify the existing ash handling facilities at Ghent and expand the existing ash storage facilities at E.W. Brown to meet by-product disposal and water quality standards. The total capital cost of these new pollution control facilities is estimated to be \$702.5 million. In addition to the construction of these new pollution control facilities, KU expects, beginning in 2005 and continuing through 2008, to purchase emission allowances at market prices to continue to comply with current federal and state environmental regulations. The cost of these emission allowances, based on KU's current forecast, is estimated to be a total of \$58.1 million from 2005 through 2008.

The estimated impact on a residential customer using 1,000 kilowatt hours per month is expected to be an initial increase of \$0.81 for KU customers in 2005, with the maximum increase expected to be \$7.05 in 2009.

The Environmental Surcharge Application described in this Notice is proposed by KU. However, the Public Service Commission may make an order modifying or denying KU's Environmental Surcharge Application. Such action may result in an environmental surcharge for consumers other than the environmental surcharge described in this Notice.

Any corporation, association, body politic or person may, by motion within thirty (30) days after publication, request leave to intervene in Case No. 2004-00426. That motion shall be submitted to the Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, Kentucky, 40602, and shall set forth the grounds for the request including the status and interest of the party. Intervenors may obtain copies of the Application and testimony by contacting Kentucky Utilities Company at 220 West Main Street, Louisville, Kentucky, 40202, Attention: Kent W. Blake, Director, State Regulation and Rates. A copy of the Application and testimony will be available for public inspection at KU's offices where bills are paid after December 20, 2004.



**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**THE APPLICATION OF KENTUCKY UTILITIES )  
COMPANY FOR A CERTIFICATE OF PUBLIC )  
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SYSTEMS AND APPROVAL OF ITS 2004 )  
COMPLIANCE PLAN AND RECOVERY BY )  
ENVIRONMENTAL SURCHARGE )**

**CERTIFICATE OF NOTICE**

Pursuant to the Kentucky Public Service Commission's Rules Governing Tariffs effective August 4, 1984, I hereby certify that I am John R. McCall, Executive Vice President, General Counsel and Corporate Secretary, LG&E Energy Services Inc. for Kentucky Utilities Company ("KU" or "Company"), a utility furnishing retail electric service within the Commonwealth of Kentucky, which, on the 20th day of December 2004, filed an application to issue an order granting KU a Certificate of Public Convenience and Necessity ("CCN") for the construction of certain Flue Gas Desulfurization ("FGD" or "Scrubber") sulfur dioxide ("SO<sub>2</sub>") control technologies at Ghent Units 2, 3 and 4 and at the E.W. Brown Station and approving an amended compliance plan for purposes of recovering the costs of new and additional pollution control facilities through its Electric Rate Schedule ECR as required by KRS 278.183, as follows:

On the 20th day of December 2004, the same was delivered for exhibition and public inspection at the offices and places of business of the Company in the territory affected thereby, to-wit, at the following places:

Barlow	London
Campbellsville	Maysville
Carrollton	Middlesboro
Danville	Morehead
Earlington	Morganfield

Eddyville  
Elizabethtown  
Georgetown  
Greenville  
Harlan  
Lexington  
Lexington North

Mt. Sterling  
Paris  
Richmond  
Shelbyville  
Somerset  
Versailles  
Winchester

and that the same will be kept open to public inspection at said offices and places of business in conformity with the requirements of 807 KAR 5:011, Section 8.

That more than twenty (20) customers will be affected by said change by way of an increase in their bills, and that on the 7th day of December 2004, there was delivered to the Kentucky Press Association, an agency that acts on behalf of newspapers of general circulation throughout the Commonwealth of Kentucky in which customers affected reside, for publication therein once a week for three consecutive weeks beginning the week of December 13, 2004, a notice of the filing of KU's application, a copy of said notice being attached hereto. A certificate of publication of said notice will be furnished to the Kentucky Public Service Commission upon completion of same pursuant to 807 KAR 5:011, Section 8(2)(c).

In addition, Kentucky Utilities Company will include a general statement explaining the application in this case with the bills for all Kentucky retail customers during the course of their regular monthly billing cycle after the filing of this Application.

Given under my hand this 20th day of December, 2004.



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John R. McCall  
Executive Vice President, General Counsel  
and Corporate Secretary  
LG&E Energy Services Inc. for  
KENTUCKY UTILITIES COMPANY  
220 West Main Street  
Louisville, Kentucky 40202