LG&E ENERGY

Kent W. Blake
Director
State Regulation and Rates

LG&E Energy LLC
220 West Main Street
Louisville, Kentucky 40202
502-627-2573
502-217-2442 FAX
kent.blake@lgeenergy.com

RECEIVED
DEC 01 2004
PUBLIC SERVICE
COMMISSION

December 1, 2004

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

RE: ***The Application of Louisville Gas and Electric Company for Approval of New Rate Tariffs Containing a Mechanism for the Pass-Through of MISO-Related Revenues and Costs Not Already Included In Existing Base Rates –***
Case No. 2004-00459

Dear Ms. O'Donnell:

Enclosed please find an original and ten (10) copies of Louisville Gas and Electric Company's and Kentucky Utilities Company's Application and Testimonies of Kent W. Blake and Robert M. Conroy, in the above-referenced dockets.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

Kent W. Blake

Kent W. Blake

cc: Hon. Elizabeth E. Blackford
Hon. Michael L. Kurtz
Hon. Katherine K. Yunker

RECEIVED

DEC 01 2004

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF NEW RATE TARIFFS CONTAINING A MECHANISM FOR THE PASS-THROUGH OF MISO-RELATED REVENUES AND COSTS NOT ALREADY INCLUDED IN EXISTING BASE RATES	)	**CASE NO. 2004-00459**

STATUTORY NOTICE

Louisville Gas and Electric Company ("LG&E"), by counsel, informs the Kentucky Public Service Commission ("Commission") that it is engaged in business as an operating public utility, principally furnishing retail gas and electric service in Jefferson County, Kentucky and portions of other counties in the surrounding area within Kentucky.

Pursuant to KRS 278.180, LG&E hereby gives notice to the Commission that, on this first day of December 2004, it files herewith its Application for approval of its proposed MISO EMT Cost Recovery Mechanism Tariff attached hereto and incorporated by reference.

The EMT is a wholesale power tariff filed with and approved by the Federal Energy Regulatory Commission for the purpose of allowing the Midwest Independent System Operator, Inc. ("MISO") to conduct and administer real-time and day-ahead energy markets. LG&E is a member of MISO and effective March 1, 2005, will begin participating in these wholesale energy markets under the terms and conditions of the EMT. LG&E proposes to pass through to customers certain monthly net revenues and costs incurred as a result of MISO's EMT (not already included in existing electric base rates) at a rate per kilowatt-hour of monthly consumption. Actual charges or credits will vary based upon the net charges or credits billed to LG&E by MISO under the EMT.

Notice is further given that the stated effective date for MISO EMT Cost Recovery Mechanism Tariff is January 1, 2005. The proposed ratemaking mechanism, if approved, will allow LG&E to pass through to customers the net costs and revenues incurred as a result of MISO's EMT at a rate per kilowatt-hour of monthly consumption, beginning with the costs and revenues incurred in March 2005.

Notice to the public of the proposed ratemaking mechanism is being given as prescribed in the Commission's regulation (807 KAR 5:051 and 807 KAR 5:011, Section 8), by including a general description of the proposed ratemaking mechanism with the bills for all Kentucky retail customers or by separate mailing to the same and by publication in accordance with the Commission's regulation (807 KAR 5:011, Section 8(2)(c)) and by exhibiting the same for public inspection at the offices of LG&E, 820 West Broadway Street, Louisville, Kentucky. A Certificate of Completed Notice will be filed with the Commission in the form recommended by Rule 807 KAR 5:011.. Submitted to the Commission this 1st 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 Louisville Gas and Electric 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 hand delivered to Elizabeth E. Blackford, Assistant Attorney General, Office of Rate Intervention, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601 this 1st day of December 2004.

Counsel for Louisville Gas and
Electric Company

MECRM

N

MISO EMT Cost Recovery Mechanism

APPLICABLE.
In all territory served.

AVAILABILITY OF SERVICE
To all Standard Rate Schedules and Pilot Programs.

(1) The monthly amount computed under each of the rate schedules to which this mechanism is applicable shall be increased or decreased by the Midwest Independent System Operator (MISO) Cost Recovery Component (MCRC) at a rate per kilowatt-hour of monthly consumption in accordance with the following formula:

$$\frac{NCR + BA}{S}$$

NCR = MISO Net Costs and Revenues in the second preceding month, as defined below.
BA = Balance Adjustment amount, as defined below.
S = Average Monthly Billed Kilowatt-Hours, as defined below.

(2) MISO Net Costs and Revenues (NCR) shall be the total of:

(a) The Midwest ISO Management Costs billed LG&E under Service Schedule 16 – Financial Transmission Rights Administrative Service Cost Recovery Adder of the Midwest ISO OATT or any successor Tariff, plus

(b) The Midwest ISO Management Costs billed LG&E under Service Schedule 17 – Energy Market Support Administrative Service Cost Recovery Adder of the Midwest ISO OATT or any successor Tariff, plus

(c) The Midwest ISO Financial Transmission Rights net costs and revenues transaction amounts charged/credited LG&E on behalf of electric retail customers, plus

(d) The Midwest ISO Day Ahead Energy Market net costs and revenues amounts charged/credited LG&E on behalf of electric retail customers, plus

(e) The Midwest ISO Real-Time Energy Market net costs and revenues amounts charged/credited LG&E on behalf of electric retail customers, plus

(f) Other Midwest ISO net costs and revenues amounts charged/credited LG&E on behalf of electric retail customers pursuant to the EMT or any successor Tariff.

(3) The Balancing Adjustment (BA) shall be the difference between the amounts billed from application of the MISO Cost Recovery Component (MCRC) in the second preceding month and the calculated amount of recovery (NCR + BA) in the fourth preceding month.

(4) The Average Monthly Billed Kilowatt-Hours (S) shall be the 12 month average billed kilowatt-hour sales for the 12 months ending in the second preceding month of the rate schedules to which this mechanism is applicable.

RECEIVED

DEC 01 2004

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF NEW RATE TARIFFS CONTAINING A MECHANISM FOR THE PASS-THROUGH OF MISO-RELATED REVENUES AND COSTS NOT ALREADY INCLUDED IN EXISTING BASE RATES	)	**CASE NO. 2004-00459**

APPLICATION

Louisville Gas and Electric Company ("LG&E"), pursuant to KRS 278.180 and 807 KAR 5:001, Section 8 hereby petitions the Kentucky Public Service Commission ("Commission") by application to issue an order approving a new rate tariff containing a mechanism for the pass-through of MISO-related revenues and costs not already included in existing base rates for LG&E. In support of this Application, LG&E states as follows:

1. Address: The Applicant's full name and post office address is: Louisville Gas and Electric Company, 220 West Main Street, Post Office Box 32010, Louisville, Kentucky 40232.

2. Articles of Incorporation: A certified copy of LG&E'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. LG&E is a public utility, as defined in KRS 278.010(3)(a), engaged in generating, transmitting and distributing electric service. LG&E provides service to approximately 390,000

electric customers in communities in and around Jefferson County, Kentucky, as well as the counties of Oldham, Bullitt, Hardin, Trimble, Meade, Henry, Shelby and Spencer.

4. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

Kent W. Blake
Director - State Regulation and Rates
LG&E Energy LLC
220 West Main Street
Post Office Box 32010
Louisville, Kentucky 40232

Elizabeth L. Cocanougher
Senior Corporate Attorney
LG&E Energy LLC
220 West Main Street
Post Office Box 32010
Louisville, Kentucky 40232

Kendrick R. Riggs
Ogden Newell & Welch PLLC
1700 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202

A detailed summary 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, Director - State Regulation and Rates, and Robert M. Conroy, Manager - Rates, all of which accompany this Application and are incorporated by reference.

5. With this Application, LG&E is requesting the approval of a ratemaking mechanism pursuant to the Commission's authority under KRS 278.030 for the pass-through to customers of its monthly net costs and revenues associated with the Midwest Independent Transmission System Operator, Inc. ("MISO")'s Open Access Transmission and Energy Markets Tariff ("EMT") not already included in LG&E's existing electric base rates. The EMT is a

wholesale power tariff filed with and approved by the Federal Energy Regulatory Commission for the purpose of allowing MISO to conduct and administer real-time and day-ahead energy markets. LG&E is a member of MISO and effective March 1, 2005, will begin participating in these wholesale energy markets under the terms and conditions of the EMT.

6. The ratemaking mechanism proposed by LG&E, titled "MISO EMT Cost Recovery Mechanism" is fully set forth in the rate schedule marked the same and filed December 1, 2004 with the Commission with a proposed effective date of January 1, 2005. LG&E is asking the Commission to approve the proposed MISO EMT Cost Recovery Mechanism Tariff, effective on and after January 1, 2005. The proposed ratemaking mechanism, if approved, will allow LG&E to pass through to customers the net costs and revenues incurred as a result of MISO's EMT at a rate per kilowatt-hour of monthly consumption, beginning with the costs and revenues incurred in March 2005. Actual charges or credits will vary based upon the net charges or credits billed to LG&E by MISO under the EMT.

7. This Application and supporting testimony and exhibits are available for public inspection at each LG&E office where bills are paid. The Company is giving notice to the public of the proposed change to its new rate tariff by newspaper publication and by separate mailing or 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.

WHEREFORE, Louisville Gas and Electric Company hereby requests the Commission to:

1. allow the MISO EMT Cost Recovery Mechanism Tariff to take effect January 1, 2005; or

2. in the alternative, if the Commission determines to investigate MISO EMT Cost Recovery Mechanism Tariff after January 1, 2005, to complete such investigation and issue an order approving the MISO EMT Cost Recovery Mechanism Tariff for bills rendered on and after May 1, 2005; and if such investigation cannot be completed before May 1, 2005, to allow LG&E to implement the MISO EMT Cost Recovery Mechanism Tariff, subject to refund, for bills rendered on and after May, 1, 2005, with the refund of any revenues collected during the month of May 2005 to be made prospectively in the form of a bill credit, following the issuance of the Commission's order thereafter.

Dated: December 1, 2004

Respectfully submitted,

Elizabeth L. Cocanougher

Kendrick R. Riggs
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 Louisville Gas and
Electric 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 1st day of December 2004, U.S. mail, postage prepaid:

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

Katherine K. Yunker
Yunker and Associates
476 East High Street, Suite 200
Post Office Box 21784
Lexington, Kentucky 40522-1784

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

Counsel for Louisville Gas and
Electric Company

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF NEW RATE TARIFFS CONTAINING A MECHANISM FOR THE PASS-THROUGH OF MISO-RELATED REVENUES AND COSTS NOT ALREADY INCLUDED IN EXISTING BASE RATES	)	**CASE NO. 2004-00459**

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 Louisville Gas and Electric Company ("LG&E" or "Company"), a utility furnishing retail electric and gas service within the Commonwealth of Kentucky, which, on the 1st day of December 2004, issued Original Sheet No. 79 P.S.C. of Ky. Electric No. 6 MISO EMT Cost Recovery Mechanism Rate Schedule to be effective January 1, 2005; and that notice to the public of the issuing of the same is being given in all respects as required by 807 KAR 5:011, Section 8(2), as follows:

On the 1st 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:

Broadway Office Complex, Louisville, Ky.
Bardstown, Ky. Office
Muldraugh, Ky. Compressor Station

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(2).

That more than twenty (20) customers will be affected by said change by way of an increase in their bills, and that on the 23rd day of November 2004, there was delivered to *The Courier-Journal*, a newspaper of general circulation throughout the areas in the Commonwealth of Kentucky in which customers affected reside, for publication therein once a week for three consecutive weeks beginning the week of November 29, 2004, a notice of the filing of LG&E's Original Sheet No. 79 P.S.C. of Ky. Electric No. 6 MISO EMT Cost Recovery Mechanism Rate Schedule, 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 the same.

In addition, Louisville Gas and Electric Company will include a general statement explaining Original Sheet No. 79 P.S.C. of Ky. Electric No. 6 MISO EMT Cost Recovery Mechanism Rate Schedule in this case by separate mailing or with the bills for all Kentucky retail customers during the course of their regular monthly billing cycle in December 2004.

Given under my hand this 1st day of December 2004.

JR McCall

John R. McCall
Executive Vice President, General Counsel
and Corporate Secretary
LG&E Energy LLC
220 West Main Street
Louisville, Kentucky 40202

316729.1

LG&E Energy Services
FACSIMILE COVER SHEET

From: Mary Gillespie
Telephone Number (502) 627-2429
220 West Main Street - 5th Floor
Louisville, Kentucky 40202
Regulatory Affairs Fax Number: (502) 627-3213

Faxing to Fax Number: 582-4930

Company: The Courier Journal

Attn: Janice Richardson

Comments: I can e-mail you the text in WORD format if that would help. Please let me know.

Number of Pages 5 (including this cover page)
Please call ______________ at (502) 627-________
if you did not receive all pages.

LG&E KU

TRANSMISSION VERIFICATION REPORT

TIME : 11/19/2004 08:45

DATE,TIME	11/19 08:44
FAX NO./NAME	95824930
DURATION	00:01:28
PAGE(S)	05
RESULT	OK
MODE	STANDARD ECM

INSERTION ORDER

Headline:	**NOTICE TO CUSTOMERS OF LOUISVILLE GAS AND ELECTRIC COMPANY**
Copy:	See Attached
Size of Ad:	As necessary
Publication:	Courier-Journal
Total Cost:	Please Advise
Dates(s) to run:	**Monday, November 29, 2004**
Special Instructions:	Ad needs to be **prominently** displayed, with a **bold border**. No hyphenation. **We will need to receive three (3) tear sheets and three (3) affidavits, by Monday, December 6, 2004**. Please FAX proof to Mary Gillespie at 627-3213. **DO NOT PRINT WITHOUT APPROVAL OF PROOF. LG&E offices will be closed November 25 and 26, so please forward proof no later than November 24**. Call Mary Gillespie, at 627-2429, if you have any questions.

In order to process your invoice, we must receive the affidavits and tear sheets. Please send these and the invoice to:

Mary Gillespie
LG&E Energy Services Co., Inc.
P. O. Box 32010
Louisville, Kentucky 40232

Mary L. Gillespie
Mary Gillespie
Rate and Regulatory Analyst

November 19, 2004
Date

**NOTICE TO CUSTOMERS OF
LOUISVILLE GAS AND ELECTRIC COMPANY**

MISO EMT COSTS AND REVENUES RECOVERY MECHANISM

PLEASE TAKE NOTICE that on December 1, 2004, Louisville Gas and Electric Company ("LG&E") will file with the Kentucky Public Service Commission ("Commission"), an Application pursuant to Kentucky Revised Statutes 278.180 for approval of a ratemaking mechanism for the recovery of its monthly net costs and revenues associated with the Midwest Independent Transmission System Operator, Inc. ("MISO")'s Open Access Transmission and Energy Markets Tariff ("EMT") not already included in LG&E's existing electric rates. The EMT is a wholesale power tariff filed with and approved by the Federal Energy Regulatory Commission for the purpose of allowing MISO to conduct and administer real-time and day-ahead energy markets. LG&E is a member of MISO and effective March 1, 2005, will begin participating in these wholesale energy markets under the terms and conditions of the EMT.

The ratemaking mechanism proposed by LG&E, titled "MISO EMT Costs and Revenues Recovery Mechanism" is shown below:

Applicable: In all territory served.

Availability of Service: To all Standard Rate Schedules and Pilot Programs.

(1) The monthly amount computed under each of the rate schedules to which this mechanism is applicable shall be increased or decreased by the Midwest Independent System Operator (MISO) Cost Recovery Component (MCRC) at a rate per kilowatt-hour of monthly consumption in accordance with the following formula:

$$\frac{NCR + BA}{S}$$

NCR = MISO Net Costs and Revenues in the second preceding month, as defined below.
BA = Balance Adjustment amount, as defined below.
S = Average Monthly Billed Kilowatt-Hours, as defined below.

(2) MISO Net Costs and Revenues (NCR) shall be the total of:

(a) The Midwest ISO Management Costs billed LG&E under Service Schedule 16 - Financial Transmission Rights Administrative Service Cost Recovery Adder of the Midwest ISO OATT or any successor Tariff, plus

(b) The Midwest ISO Management Costs billed LG&E under Service Schedule 17 – Energy Market Support Administrative Service Cost Recovery Adder of the Midwest ISO OATT or any successor Tariff, plus

(c) The Midwest ISO Financial Transmission Rights net costs and revenues transaction amounts charged/credited LG&E on behalf of electric retail customers, plus

(d) The Midwest ISO Day Ahead Energy Market net costs and revenues amounts charged/credited LG&E on behalf of electric retail customers, plus

(e) The Midwest ISO Real-Time Energy Market net costs and revenues amounts charged/credited LG&E on behalf of electric retail customers, plus

(f) Other Midwest ISO net costs and revenues amounts charged/credited LG&E on behalf of electric retail customers pursuant to the EMT or any successor Tariff.

(3) The Balancing Adjustment (BA) shall be the difference between the amounts billed from application of the MISO Cost Recovery Component (MCRC) in the second preceding month and the calculated amount of recovery (NCR + BA) in the fourth preceding month.

(4) The Average Monthly Billed Kilowatt-Hours (S) shall be the 12 month average billed kilowatt-hour sales for the 12 months ending in the second preceding month of the rate schedules to which this mechanism is applicable.

LG&E is asking the Commission to approve the proposed MISO EMT Costs and Revenues Recovery Mechanism tariff, effective on and after January 1, 2005. The proposed ratemaking mechanism, if approved, will allow LG&E to recover the net costs and revenues incurred as a result of MISO's EMT at a rate per kilowatt-hour of monthly consumption, beginning with the costs and revenues incurred in March 2005.

The estimated average monthly impact on a residential customer using 1,000 kilowatt hours per month is expected to be an increase of $0.20 per month for LG&E customers in 2005. Actual charges or credits will vary based upon the net charges or credits billed to LG&E by MISO under the EMT.

The Application and MISO EMT Costs and Revenues Recovery Mechanism Rate Schedule described in this Notice are proposed by LG&E. However, the Public Service Commission may make an order modifying or denying LG&E's Application or may order a Rate Schedule to be used that is different from LG&E's proposed MISO EMT

Costs and Revenues Recovery Mechanism Rate Schedule. Such action may result in a MISO EMT Costs and Revenues Recovery Mechanism charge/credit for consumers other than the ratemaking mechanism described in this Notice.

Any corporation, association, body politic or person may, by motion within thirty (30) days after publication or mailing of notice of the proposed MISO EMT Costs and Revenues Recovery Mechanism, request leave to intervene in the proceeding. 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 Louisville Gas and Electric Company at 220 West Main Street, Louisville, Kentucky 40202, Attention: Kent W. Blake, Director, State Regulation and Rates, Louisville Gas and Electric Company. A copy of the Application and testimony will be available for public inspection at LG&E's offices where bills are paid after December 1, 2004.

LG&E Energy Services
FACSIMILE COVER SHEET

From: Mary Gillespie

Telephone Number (502) 627-2429
220 West Main Street - 5th Floor
Louisville, Kentucky 40202
Regulatory Affairs Fax Number: (502) 627-3213

Faxing to Fax Number: 582-4930

Company: The Courier Journal

Attn: Legal Ads - Janice Richardson

Comments: I know Janice is out this week. I have e-mailed the text of this ad to her for her use next week.

Number of Pages 5 **(including this cover page)**
Please call ______ **at (502) 627-** ______
if you did not receive all pages.

LG&E KU

TRANSMISSION VERIFICATION REPORT

TIME : 11/23/2004 11:01

DATE,TIME	11/23 10:59
FAX NO./NAME	95824930
DURATION	00:01:28
PAGE(S)	05
RESULT	OK
MODE	STANDARD ECM

INSERTION ORDER

Headline:	**NOTICE TO CUSTOMERS OF LOUISVILLE GAS AND ELECTRIC COMPANY**
Copy:	See Attached
Size of Ad:	As necessary
Publication:	Courier-Journal
Total Cost:	Please Advise
Dates(s) to run:	**Monday, December 6, 2004 and Monday, December 13, 2004**
Special Instructions:	Ad needs to be **prominently** displayed, with a **bold border. We will need to receive three (3) tear sheets and three (3) affidavits, by Monday, December 20, 2004. Please FAX proof to Tammy Elzy at 627-3213.** **DO NOT PRINT WITHOUT APPROVAL OF PROOF. I will be out of the office November 29 through December 3. Please contact Tammy Elzy at 627-2184, if you have any questions.**

In order to process your invoice, we must receive the affidavits and tear sheets. Please send these and the invoice to:

Mary Gillespie
LG&E Energy Services Co., Inc.
P. O. Box 32010
Louisville, Kentucky 40232

Mary Gillespie

Mary Gillespie
Rate and Regulatory Analyst

November 23, 2004

Date

NOTICE TO CUSTOMERS OF LOUISVILLE GAS AND ELECTRIC COMPANY

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Costs and Revenues Recovery Mechanism Rate Schedule. Such action may result in a MISO EMT Costs and Revenues Recovery Mechanism charge/credit for consumers other than the ratemaking mechanism described in this Notice.

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF NEW RATE TARIFFS CONTAINING A MECHANISM FOR THE PASS-THROUGH OF MISO-RELATED REVENUES AND COSTS NOT ALREADY INCLUDED IN EXISTING BASE RATES	)))))))	**CASE NO. 2004-00459**

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 Louisville Gas and Electric Company ("LG&E" or "Company"), a utility furnishing retail electric and gas service within the Commonwealth of Kentucky, which, on the 1st day of December 2004, issued Original Sheet No. 79 P.S.C. of Ky. Electric No. 6 MISO EMT Cost Recovery Mechanism Rate Schedule to be effective January 1, 2005; and that notice to the public of the issuing of the same is being given in all respects as required by 807 KAR 5:011, Section 8(2), as follows:

On the 1st 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:

Broadway Office Complex, Louisville, Ky.
Bardstown, Ky. Office
Muldraugh, Ky. Compressor Station

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(2).

That more than twenty (20) customers will be affected by said change by way of an increase in their bills, and that on the 23rd day of November 2004, there was delivered to *The Courier-Journal*, a newspaper of general circulation throughout the areas in the Commonwealth of Kentucky in which customers affected reside, for publication therein once a week for three consecutive weeks beginning the week of November 29, 2004, a notice of the filing of LG&E's Original Sheet No. 79 P.S.C. of Ky. Electric No. 6 MISO EMT Cost Recovery Mechanism Rate Schedule, 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 the same.

In addition, Louisville Gas and Electric Company will include a general statement explaining Original Sheet No. 79 P.S.C. of Ky. Electric No. 6 MISO EMT Cost Recovery Mechanism Rate Schedule in this case by separate mailing or with the bills for all Kentucky retail customers during the course of their regular monthly billing cycle in December 2004.

Given under my hand this 1st day of December 2004.

John R. McCall
Executive Vice President, General Counsel
and Corporate Secretary
LG&E Energy LLC
220 West Main Street
Louisville, Kentucky 40202

316729.1

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF NEW RATE TARIFFS CONTAINING A MECHANISM FOR THE PASS-THROUGH OF MISO-RELATED REVENUES AND COSTS NOT ALREADY INCLUDED IN EXISTING BASE RATES	) CASE NO. 2004-00459

and

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES COMPANY FOR APPROVAL OF NEW RATE TARIFFS CONTAINING A MECHANISM FOR THE PASS-THROUGH OF MISO-RELATED REVENUES AND COSTS NOT ALREADY INCLUDED IN EXISTING BASE RATES	) CASE NO. 2004-00460

DIRECT TESTIMONY OF
KENT W. BLAKE
DIRECTOR, STATE REGULATION AND RATES
LG&E ENERGY SERVICES INC.

Filed: December 1, 2004

Q. Please state your name, position and business address.

A. My name is Kent W. Blake. I am Director of State Regulation and Rates for LG&E Energy Services Inc. ("LG&E Energy"), on behalf of Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively the "Companies"). My business address is 220 West Main Street, Louisville, Kentucky 40202. A statement of my qualifications is included in Appendix A.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the Companies' proposal to implement a rate mechanism to reflect the net costs and revenues, associated with retail native load and not already included in existing rate mechanisms, associated with the Companies' participation in the Midwest Independent Transmission System Operator, Inc. ("MISO") day-ahead and real-time energy markets, pursuant to the MISO's Energy Markets Tariff ("EMT"). I will explain why such a mechanism is necessary. I will provide an overview of how the mechanism works. Finally, I will explain why the Commission should approve the Companies' request to implement the MISO EMT Cost Recovery Mechanism Tariff ("MECRM") with an effective date no later than May 1, 2005, such that the Companies may begin to recover the net costs and revenues of the FERC approved MISO EMT from its effective date, currently scheduled for March 1, 2005.

Q. Does this Application address the issue of the Companies' continued membership in the MISO?

A. No. The issue of whether the Companies' membership in MISO is in the public interest is before the Commission in Case No. 2003-00266. This Application addresses only the Companies' proposal to pass through to customers the incremental net costs and revenues of participation in the MISO Day 2 markets. The Companies' request for relief in Case No. 2003-00266 (i.e. to return the functional control over their transmission system) is not altered by the filing of the applications for the ratemaking mechanisms in these proceedings.

Q. What aspects of the MISO EMT or "Day 2" markets are relevant to this Application?

A. The details of MISO's EMT tariff were set forth in the March 31, 2004 tariff filing with the Federal Energy Regulatory Commission ("FERC"). The proposed EMT contained the terms and conditions necessary to implement a market-based congestion management program and energy spot markets, including a Day-Ahead Energy Market and a Real-Time Energy Market, Locational Marginal Pricing ("LMP"), and a market for Financial Transmission Rights ("FTRs"). Each of these elements of the EMT, along with various other more detailed aspects of the MISO implementation that I will discuss below, imposes new costs on -- and potentially affords new revenues to -- the Companies.

Q. Is the MISO EMT a FERC-approved interstate wholesale power rate?

A. Yes. On May 26, 2004, the FERC issued a procedural order that set the MISO Day 2 market implementation date at March 1, 2005. On August 6, 2004, the FERC issued an order which conditionally accepted the MISO EMT proposal. More specifically, the

FERC accepted and suspended the EMT and permitted it to become effective March 1, 2005, subject to conditions and further orders on Grandfathered Agreements ("GFAs") and Schedules 16 and 17 of the MISO Tariff. Parties to the case, including the Companies, filed a total of 30 requests for rehearing and clarification of the EMT Order. On November 8, 2004, the FERC addressed all issues raised in these rehearing/clarification requests (with the exception of data confidentiality). On most issues and except in limited circumstances, the FERC denied rehearing and affirmed the August 6, 2004 EMT Order. Thus, the EMT was approved by FERC and the costs and revenues incurred under the EMT are FERC approved rates effective March 1, 2005.

Q. Is the FERC-approved MISO EMT publicly available?

A. Yes. The MISO EMT is voluminous – over 800 original pages in length –and is available online at www.midwestiso.org/ferc_filings.php.

Q. Why are the Companies proposing the MECRM?

A. The Companies are proposing the MECRM to charge or credit the monthly MISO net costs and revenues associated with serving retail native load and not already recovered in existing rates, as billed to the Companies by MISO under the FERC-approved MISO EMT. The Companies expect the MISO Day 2-related costs and revenues to be substantial in amount and to vary significantly across time periods. Almost all of the costs and revenues incurred are outside of the control of the Companies. The proposed MECRM provides tracking of all EMT charges and revenues associated with serving retail native load, and provides for a timely pass-through of these costs and revenues to customers via the monthly bill.

Q. Would implementation of the MECRM require any adjustment to the Companies' base rates?

A. No. Implementation of the MECRM would have no impact on the Companies' base rates. The costs and revenues under consideration in this proceeding will not begin to be incurred until March 1, 2005, and thus were not included in the test year used for purposes of calculating the base rates in Case No's. 2003-00433 and 2003-0044. The MECRM will simply result in a pass-through to customers of such costs and revenues attributable to service of retail native load under MISO's EMT without any incremental return to the Companies.

Q. Please describe in general how the MECRM operates.

A. The MECRM is designed to recover the net costs or credit the net revenues attributable to retail native load and not currently included in base rates (or any other existing rate mechanism) from retail electric customers through a monthly per kilowatt-hour charge. A separate MECRM is proposed for KU and for LG&E. A monthly billing factor for each Company will be calculated for customers served under all rate schedules. The billing factor will be filed in the month after the operating month, and the billing factor will appear on customer bills two months after the operating month. Thus a two month regulatory lag is in effect, much like that of the existing Fuel Adjustment Clause ("FAC") and Environmental Cost Recovery ("ECR") billing factors for KU and LG&E. The monthly billings will be subject to an additional, detailed review by the Commission on an annual basis. The operation of the MECRM is described more fully in the testimony of Robert M. Conroy.

Q. How will the costs and revenues used in the MECRM be recorded on the Companies' books?

A. The settlement process between the Companies and the MISO functions in stages. First, MISO will issue a settlement statement to the Companies on a daily basis, seven days after the operating day. MISO will issue an invoice to the Companies on a weekly basis, where the invoice reflects the sum of the daily settlement statements for the given week. The Companies must pay the MISO within seven days of the invoice date. The settlement statements and the invoice will include numerous expense and revenue items on a net basis. Each month, the Companies will translate the settlement statements into entries on the general ledger, using estimates for the days for which settlement statements are not yet available, in accordance with generally accepted accounting principles and the existing reporting obligations of the Companies. Specific sub-accounts within the FERC Uniform System of Accounts ("USoA") will be established by the Companies to ensure the proper accounting of all MISO settlement data. These sub-accounts will reflect the appropriate charges and revenues each month after the operation of the MISO Day 2 markets begins.

Q. Please generally describe the costs and revenues associated with the MISO EMT.

A. The settlement process between the Companies and the MISO discussed above will include numerous expense and revenue items. The costs and revenues included in the settlements may be generally categorized as (a) Schedule 16, FTR Administrative costs, (b) Schedule 17, Energy Market Administrative costs, (c) FTR transaction costs and revenues, (d) Day Ahead Energy costs and revenues, (e) Real Time Energy Market costs and revenues, and (f) Other costs and revenues charged/credited to the Companies pursuant to the MISO EMT.

Q. How does the MECRM propose to treat these costs and revenues from a ratemaking standpoint?

A. In the MECRM, all costs and revenues under the MISO EMT reflected on the books, attributable to retail native load, and not already included in existing rates or rate mechanisms are included in the numerator of the monthly calculation. Thus, they are netted together and are charged or credited to customers on a monthly basis.

Q. Does the MECRM include consideration of all MISO-related costs and revenues?

A. No. Certain MISO-related costs and/or revenues are already included in existing base rates or rate mechanisms. These include MISO Day 1 costs and revenues as contemplated in the Companies' base rate cases in Case Nos. 2003-00433 and 2003-00434. Furthermore, EMT costs related to Off-System Sales ("OSS"), are not included in the numerator of the MECRM calculation. Finally, any energy costs associated with purchased power are excluded from the MECRM if or when that energy is assigned to retail native load as economic purchases and included in the calculation of the FAC. These details are described more fully in the testimony of Mr. Conroy.

Q. How does the MECRM complement the existing rate structures of the Companies?

A. By excluding (a) the MISO Day 1 costs reflected in the Companies' base rates, (b) those costs associated with OSS, and (c) the energy component of purchased power from MISO assigned to retail native load via the Companies' After-the-Fact Billing ("AFB") methodology and included in the FAC, the MECRM ensures that double-recovery of costs does not occur. Thus the mechanism complements the existing base rates and FAC for the Companies.

Q. Did the Companies calculate an estimate of the bill impact of the MECRM to a representative residential customer?

A. Yes. Based on the testimony of Mr. Mathew J. Morey submitted in Case No. 2003-00266, the Companies determined an overall expected cost to the combined Companies of approximately $7 million for 2005 (annualized). When spread across the total annual energy usage of the Companies of approximately 34,500 GWh, the estimated average monthly cost to a customer using 1000 kWh is $0.20.

While it is difficult to develop a precise estimate of the bill impact because MISO's EMT has yet to take effect and the day-ahead energy markets have not yet begun to operate, the administrative costs, (i.e. Schedules 16 and 17), are reasonably estimable--projected by MISO and the Companies to be in the range of $7 million to $9 million annually. The operational cost and revenue impacts relating to FTRs, Day Ahead Energy

Markets, Real-Time Energy Markets, and other aspects of Day 2 market participation are estimates which may be subject to change due to the potential volatility of the market. This volatility is one of the reasons why the Companies are proposing the MECRM.

In Case No. 2003-00266 the Companies' cost evidence was based on the assumption that FTRs will provide a near-perfect hedge against congestion in Day 2. For practical purposes, there is only a remote possibility of such a near-perfect hedge occurring continuously over time. The Companies fully expect that the operational costs associated with participation in the Day 2 markets will be volatile and potentially substantial in amounts. Furthermore, MISO may create other charge types on its settlement statements and invoices as their experience with administering the Day 2 markets under the EMT grows. Thus the actual charges or credits will vary based upon the net charges or credits billed to the Companies by MISO under the EMT.

Q. What is the proposed effective date of the MECRM?

A. The proposed effective date is January 1, 2005. The MISO Day 2 markets are scheduled to commence on March 1, 2005. While the Commission may suspend the proposed tariff for up to five months from the proposed effective date, or until June 1, 2005 given the two-month ratemaking lag in the MECRM, suspension of the rate schedule in this way prevents the Companies from charging or crediting the net costs or revenues to customers for the operating month of March 2005. Therefore the Companies respectfully suggest that, should the Commission elect to suspend this rate schedule, that it do so for no more that four months (or through April 2005), setting an effective date no later than May 1, 2005, such that the Companies may apply the MECRM from the point of market implementation on March 1, 2005. In the alternative, the Companies suggest that if the Commission cannot complete its investigation and issue an order by April 1, 2005, the Commission should authorize the Companies to charge or credit customers for the net revenues and expenses incurred during the operating month of March, subject to refund by prospective adjustment through the mechanism beginning with billing for service rendered on and after May 1, 2005.

Q. Why should the Commission approve the MECRM?

A. The Commission should approve the MECRM for several reasons. The MECRM provides a fair, just and reasonable rate mechanism and procedure for the Companies to recover the net costs or return the net revenues under the FERC-approved EMT which are attributable to retail native load. Second, the revenues and costs caused by MISO's EMT are likely to be significant, subject to rapid changes, and such changes are beyond the control of the Companies. As such, these FERC approved net costs and revenues should be appropriately tracked and reflected through the proposed MECRM instead of base rates. Finally, if the Companies are successful in withdrawing from the MISO, then the mechanism can be withdrawn from service without a lengthy and costly administrative proceeding.

Q. Do you have a recommendation for the Commission in this case?

A. Yes. It is my recommendation that the Commission approve the Companies' proposed MISO EMT Cost Recovery Mechanism. The mechanism complements the Companies' existing rate mechanisms, is just and reasonable and as such, the mechanism should be approved by the Commission. Finally, the Commission should approve this mechanism with an effective date no later than May 1, 2005, such that the Companies may begin to recover the net costs or return the net revenues under this mechanism from the inception of the Day 2 markets currently scheduled for March 1, 2005.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Kent W. Blake**, being duly sworn, deposes and says he is Director of State Regulation and Rates for LG&E Energy Services Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Kent W. Blake
KENT W. BLAKE

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of December 2004.

Tammy J. Elzy
Notary Public

My Commission Expires:

TAMMY J. ELZY
NOTARY PUBLIC
STATE AT LARGE
KENTUCKY
My Commission Expires Nov. 9, 2006

APPENDIX A

Kent W. Blake

Director, State Regulation and Rates
LG&E Energy Services Inc.
220 West Main Street
P. O. Box 32010
Louisville, Kentucky 40202
(502) 627-2573

Education

University of Kentucky, B.S. in Accounting, May 1988
Certified Public Accountant, Kentucky, January 1991

Previous Positions

LG&E Energy LLC, Louisville, Kentucky
2003 (Sept) – 2004 (Oct) – Director, Regulatory Initiatives
2003 (Feb) – 2003 (Sept) – Director, Business Development
2002 (Aug) – 2003 (Feb) – Director, Finance and Business Analysis

Mirant Corporation (f.k.a. Southern Company Energy Marketing)
2002 (Feb-Aug) – Senior Director, Applications Development
2000-2002 – Director, Systems Integration
1998-2000 – Trading Controller

LG&E Energy Corp.
1997-1998 – Director, Corporate Accounting and Trading Controls

Arthur Andersen LLP
1992-1997 – Manager, Audit and Business Advisory Services
1990-1992 – Senior Auditor
1988-1990 – Audit Staff

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF NEW RATE TARIFFS CONTAINING A MECHANISM FOR THE PASS-THROUGH OF MISO-RELATED REVENUES AND COSTS NOT ALREADY INCLUDED IN EXISTING BASE RATES	)	**CASE NO. 2004-00459**

and

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES COMPANY FOR APPROVAL OF NEW RATE TARIFFS CONTAINING A MECHANISM FOR THE PASS-THROUGH OF MISO-RELATED REVENUES AND COSTS NOT ALREADY INCLUDED IN EXISTING BASE RATES	)	**CASE NO. 2004-00460**

DIRECT TESTIMONY OF
ROBERT M. CONROY
MANAGER, RATES
LG&E ENERGY SERVICES INC.

Filed: December 1, 2004

Q. Please state your name, position and business address.

A. My name is Robert M. Conroy. I am Manager of Rates for LG&E Energy Services Inc. ("LG&E Energy"), on behalf of Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively the "Companies"). My business address is 220 West Main Street, Louisville, Kentucky 40202. A statement of my qualifications is included as Appendix A.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain how the Companies' propose to implement a rate mechanism to reflect the net costs and revenues associated with the Companies' participation in the Midwest Independent Transmission System Operator, Inc. ("MISO") day-ahead and real-time energy markets, pursuant to the MISO's Federal Energy Regulatory Commission ("FERC") approved Energy Markets Tariff ("EMT"). I will describe the details of the operation of the proposed MISO EMT Cost Recovery Mechanism Tariff ("MECRM"), which accompanies my testimony as Exhibit RMC-1 for LG&E and Exhibit RMC-2 for KU. I will describe how the appropriate costs and revenues are allocated and will explain how the proposed mechanism complements the existing base rates and rate mechanisms of LG&E and KU. Furthermore, I will propose the forms to be utilized in the monthly filings associated with the MECRM that will provide the Commission oversight of the calculation of the billing factor

Q. Please describe in general how the MECRM operates.

A. The MECRM is designed to recover the net FERC-approved EMT costs or credit the net revenues associated with serving retail native load not currently included in base rates (or any other existing rate mechanism) from retail electric customers through a monthly per kilowatt-hour charge. LG&E and KU will each have an MECRM. A monthly billing factor for each Company will be calculated by dividing the total MISO EMT net costs and revenues for retail native load for the operating month, plus a balancing adjustment, by the average monthly billed kilowatt-hours for the 12 months ending with the reporting month. The billing factor will be filed in the month after the operating month, and the billing factor will appear on customer bills two months after the operating month. Thus a two month regulatory lag is in effect, much like that of the existing Fuel Adjustment Clause ("FAC") and Environmental Cost Recovery ("ECR") billing factors for KU and LG&E.

Q. What is the source of the information used to calculate the MECRM billing factors?

A. All of the FERC-approved costs and revenues in the MECRM are from the Company's books as recorded in the specific sub-accounts within the FERC Uniform System of Accounts ("USoA"), as discussed in the testimony of Kent W. Blake. The data contained in the specific USoA sub-accounts are derived from the allocation methods (discussed later in my testimony) applied to the cost and revenue items included on the MISO Settlement Statement. A sample of the MISO Settlement Statement, in its current form as provided by MISO, is attached as Exhibit RMC-3 to my testimony. The specific detailed items contained on the MISO Settlement Statement may be revised by MISO prior to

March 1, 2005 and the commencement of the administration of day-ahead and real time energy markets.

Q. Specifically, which costs and revenues will be included in the MECRM?

A. As noted by Mr. Blake in his testimony, the costs and revenues included in the settlements may be generally categorized as (a) Schedule 16, FTR Administrative costs, (b) Schedule 17, Energy Market Administrative costs, (c) FTR transaction costs and revenues, (d) Day Ahead Energy costs and revenues, (e) Real-Time Energy Market costs and revenues, and (f) Other costs and revenues charged/credited to the Companies pursuant the MISO EMT. As previously noted, the specific cost and revenue items included on the MISO Settlement Statement are subject to revision by MISO. The Companies shall reflect these details and any subsequent revisions to them on the forms contained in the monthly filings for the MECRM.

Q. How does the MECRM propose to treat these costs and revenues from a ratemaking standpoint?

A. In the MECRM, all FERC-approved costs and revenues under the MISO EMT reflected on the books, assigned to retail native load, and not already included in existing base rates or rate mechanisms are included in the numerator of the monthly calculation. Thus they are charged or credited to customers on a monthly basis.

Q. Does the MECRM exclude any costs or revenues that will be reflected in the MISO settlement process?

A. Yes. These include the FERC-approved MISO Day 1 costs and revenues as contemplated in the Companies' base rate cases in Case Nos. 2003-00433 and 2003-00434. The test year in those cases included (a) the Day 1 administrative costs per Schedule 10, (b) the transmission revenues paid to the Companies by MISO for the use of the LG&E and KU grid by wholesale customers under the MISO Open Access Transmission Tariff, and (c) the transmission expenses paid to MISO by the Companies for the use of the grid for the Companies' Off-System Sales ("OSS").

Furthermore, certain costs are not reasonably attributed to retail native load customers and as such are not included in the numerator of the MECRM calculation. These include the energy, congestion and loss charges associated with OSS, along with the portions of the Schedule 16 (FTR market administration) and Schedule 17 (Day-Ahead and Real-Time Energy Market administration) costs allocated to OSS. Also excluded from the numerator of the calculation are any bilateral or virtual purchases and sales that are financial transactions not resulting in physical power flow into or out of the Companies' control area.

Finally, the costs associated with purchased power are excluded from the MECRM when that energy is assigned to retail native load and passed through to customers in the FAC, as discussed below.

<u>**Allocation of Costs & Revenues to Retail Native Load vs. OSS**</u>

Q. Does the MISO settlement statement make a distinction between billings for retail native load and OSS?

A. No. The MISO settlement statement is provided on a net combined company basis. The Companies are responsible for allocating all costs and revenues appropriately between retail native load and OSS.

Q. In general, how will the Companies allocate all costs and revenues associated with the MISO settlement statement as they relate to Retail Native Load and OSS?

A. To the extent that, under the FERC-approved EMT, MISO directly identifies charges and revenues associated with retail or OSS, the Companies will allocate those charges and/or revenues accordingly. The remaining cost categories identified previously and outlined in the MECRM will be allocated as discussed below.

Q. How will the Schedule 16 costs be allocated between retail native load and OSS?

A. Schedule 16, the administrative costs for the FTR market, will be allocated to retail native load and OSS in accordance with total FTR MWhs by sink for the operating period.

Q. How will the Schedule 17 costs be allocated between retail native load and OSS?

A. Schedule 17, the administrative costs for the Day Ahead and Real Time Energy Markets, will be allocated to retail native load and OSS in proportion to the volumes of retail native load and OSS in MWhs for the operating period.

Q. How will the FTR costs and revenues be allocated between retail native load and OSS?

A. FTRs are path-specific. FTRs with a sink of KU or LG&E will be 100% allocated to retail native load. Any FTRs purchased at auction or in the secondary market that have a sink other than KU or LG&E will be 100% allocated to OSS.

Q. How will the Day Ahead and Real-Time Energy Market costs and revenues be allocated between retail native load and OSS?

A. For the energy-related costs and revenues, the Companies will continue to use the existing After-the-Fact Billing ("AFB") system to assign the highest cost resources (e.g. generation and purchases) to OSS on an hourly basis. The allocation of highest-cost resources to OSS in this fashion is consistent with the existing application of the Power Supply System Agreement ("PSSA") filed with the FERC. The allocation of highest-cost resources to OSS will determine what portion of the related MISO energy market cost items (e.g. energy, congestion, losses, etc.) are assigned to OSS. The portion not assigned to OSS will be assigned to retail native load.

<u>Allocation of Costs & Revenues to LG&E vs. KU</u>

Q. Does the MISO settlement statement make a distinction between billings for LG&E and for KU?

A. No. The MISO settlement statement is provided on a combined company basis. The Companies are responsible for allocating all costs and revenues appropriately between LG&E and KU.

Q. In general, how will the Companies allocate all costs and revenues associated with the MISO settlement statement to LG&E and KU?

A. Any costs and revenues identified in the MISO settlement statement that are directly assigned to LG&E or KU will be allocated to the respective Company. The remaining cost categories identified previously and outlined in the MECRM will be allocated as discussed below.

Q. How will the Schedule 16 costs be allocated between LG&E and KU?

A. Schedule 16, the administrative costs for the FTR market, will be allocated to KU and LG&E in proportion to the FTR MWhs for each Company's load zone.

Q. How will the Schedule 17 costs be allocated between LG&E and KU?

A. Schedule 17, the administrative costs for the Day Ahead and Real-Time Energy Markets, will be allocated to LG&E and KU in proportion to the total volume of MWhs for company generation and load in the operating period.

Q. How will the FTR costs and revenues be allocated between LG&E and KU?

A. FTRs are path-specific and have sink zones of either LG&E or KU. FTRs with a sink of LG&E will be 100% allocated to LG&E; FTRs with a sink of KU will be 100% allocated to KU.

Q. How will the Day Ahead and Real-Time Energy Market costs and revenues be allocated between LG&E and KU?

A. The energy-related billing items will be allocated using AFB, in much the same way that energy-related charges are allocated between KU and LG&E today in the joint-dispatch environment.

Consistency and Review

Q. How does the MECRM complement the existing rate structures of the Companies?

A. By excluding (a) the MISO Day 1 costs contemplated in the Companies' base rates, (b) those costs associated with OSS, and (c) any components of purchased power from MISO assigned to retail native load via AFB and included in the FAC, the MECRM ensures that double-recovery of costs does not occur. Thus the mechanism complements the existing base rates and FAC for the Companies and allows for the accurate tracking and recovery of changes in the level of the costs and revenues incurred by LG&E and KU under the FERC-approved EMT.

Q. Does the MISO EMT or the MECRM create a need for the Companies to modify the monthly FAC filings?

A. No. At this time the Companies expect that the FAC will not change. For purchased power that is assigned to retail native load by AFB as an "economy purchase", only the energy component of that purchase will flow through the FAC. The congestion and losses associated with such a purchase, if any, will be included in the MECRM.

Q. How do the Companies propose to ensure that sufficient review is in place to prevent over- or under-recovery of costs as discussed above?

A. The Companies propose that the monthly MECRM filings be reviewed by the Commission in a more detailed manner, much like the six-month FAC and ECR reviews, but on an annual basis. An annual review is more appropriate than a six-month review because of the seasonal volatility expected under the FERC-approved MISO EMT. The annual review should provide the Commission full assurances that the billing factors calculated in the twelve monthly filings are correct and accurate, that the Companies recorded the costs and revenues properly, and that the balancing adjustment correctly accounts for variations in usage and prior period adjustments, subject to the terms of the FERC-approved MISO EMT.

Q. Please explain the forms to be used in the monthly filings for the MECRM.

A. Attached to my testimony as Exhibit RMC-4 for LG&E and Exhibit RMC-5 for KU are three proposed forms for LG&E and KU to be utilized in the monthly filings for the MECRM. MECRM Form 1.0 provides the calculation of the MISO Cost Recovery Component (MCRC) rate. The MCRC rate is the monthly charge or credit per kilowatt-hour that will be utilized for billing the MISO EMT Cost Recovery Mechanism to electric retail customers. The MCRC is determined by the total MISO net costs and revenues for the current expense month (NCR), plus the balancing adjustment amount (BA) divided by the average monthly billed kilowatt-hours (S).

MECRM Form 2.0 provides the computation of the MISO net costs and revenues (NCR) determined by obtaining the specific sub-account cost/revenue charge type amounts from the Company's books for the current expense month, assigning the amounts to the appropriate MISO costs and revenues category, and totaling the net amount to calculate the NCR.

MECRM Form 3.0 provides the computation of the average monthly billed kilowatt-hours (S) determined by the 12 month average billed kilowatt-hour sales of electric retail customers for the 12 months ending in the current expense month.

Q. Do you have a recommendation for the Commission in this case?

A. Yes. It is my recommendation that the Commission approve the Companies' MISO EMT Cost Recovery Mechanism as proposed. The mechanism complements the Companies' existing rate mechanisms and allows for the timely recovery of changes in revenues and costs incurred by the Companies under the FERC-approved EMT. As such the mechanism should be approved by the Commission.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says he is Manager of Rates for LG&E Energy Services Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Robert M. Conroy

ROBERT M. CONROY

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of December 2004.

Tammy J. Elzy

Notary Public

My Commission Expires:

TAMMY J. ELZY
NOTARY PUBLIC
STATE AT LARGE
KENTUCKY
My Commission Expires Nov. 9, 2006

APPENDIX A

Robert M. Conroy

Manager, Rates
LG&E Energy Services Inc.
220 West Main Street
P.O. Box 32010
Louisville, KY 40202
(502) 627-3324

Education

Masters of Business Administration

Indiana University (Southeast campus), December 1998. GPA: 3.9.

Bachelor of Science in Electrical Engineering;
Rose Hulman Institute of Technology, May 1987. GPA: 3.3

Center for Creative Leadership, Foundations in Leadership program, 1998.

Registered Professional Engineer in Kentucky, 1995.

Previous Positions

Manager, Generation Systems Planning	Feb. 2001 – April 2004
Group Leader, Generation Systems Planning	Feb. 2000 – Feb. 2001
Lead Planning Engineer	Oct. 1999 – Feb. 2000
Consulting System Planning Analyst	April 1996 – Oct. 1999
System Planning Analyst III & IV	Oct. 1992 - April 1996
System Planning Analyst II	Jan. 1991 - Oct. 1992
Electrical Engineer II	Jun. 1990 - Jan. 1991
Electrical Engineer I	Jun. 1987 - Jun. 1990

Professional/Trade Memberships

Registered Professional Engineer in Kentucky, 1995.

N

MECRM

MISO EMT Cost Recovery Mechanism

APPLICABLE.
In all territory served.

AVAILABILITY OF SERVICE
To all Standard Rate Schedules and Pilot Programs.

(1) The monthly amount computed under each of the rate schedules to which this mechanism is applicable shall be increased or decreased by the Midwest Independent System Operator (MISO) Cost Recovery Component (MCRC) at a rate per kilowatt-hour of monthly consumption in accordance with the following formula:

$$\frac{NCR + BA}{S}$$

NCR = MISO Net Costs and Revenues in the second preceding month, as defined below.
BA = Balance Adjustment amount, as defined below.
S = Average Monthly Billed Kilowatt-Hours, as defined below.

(2) MISO Net Costs and Revenues (NCR) shall be the total of:

(a) The Midwest ISO Management Costs billed LG&E under Service Schedule 16 – Financial Transmission Rights Administrative Service Cost Recovery Adder of the Midwest ISO OATT or any successor Tariff, plus

(b) The Midwest ISO Management Costs billed LG&E under Service Schedule 17 – Energy Market Support Administrative Service Cost Recovery Adder of the Midwest ISO OATT or any successor Tariff, plus

(c) The Midwest ISO Financial Transmission Rights net costs and revenues transaction amounts charged/credited LG&E on behalf of electric retail customers, plus

(d) The Midwest ISO Day Ahead Energy Market net costs and revenues amounts charged/credited LG&E on behalf of electric retail customers, plus

(e) The Midwest ISO Real-Time Energy Market net costs and revenues amounts charged/credited LG&E on behalf of electric retail customers, plus

(f) Other Midwest ISO net costs and revenues amounts charged/credited LG&E on behalf of electric retail customers pursuant to the EMT or any successor Tariff.

(3) The Balancing Adjustment (BA) shall be the difference between the amounts billed from application of the MISO Cost Recovery Component (MCRC) in the second preceding month and the calculated amount of recovery (NCR + BA) in the fourth preceding month.

(4) The Average Monthly Billed Kilowatt-Hours (S) shall be the 12 month average billed kilowatt-hour sales for the 12 months ending in the second preceding month of the rate schedules to which this mechanism is applicable.

MECRM

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MISO EMT Cost Recovery Mechanism

APPLICABLE.
In all territory served.

AVAILABILITY OF SERVICE
To all Standard Rate Schedules and Pilot Programs.

(1) The monthly amount computed under each of the rate schedules to which this mechanism is applicable shall be increased or decreased by the Midwest Independent System Operator (MISO) Cost Recovery Component (MCRC) at a rate per kilowatt-hour of monthly consumption in accordance with the following formula:

$$\frac{NCR + BA}{S}$$

NCR = MISO Net Costs and Revenues in the second preceding month, as defined below.
BA = Balance Adjustment amount, as defined below.
S = Average Monthly Billed Kilowatt-Hours, as defined below.

(2) MISO Net Costs and Revenues (NCR) shall be the total of:

(a) The Midwest ISO Management Costs billed KU under Service Schedule 16 – Financial Transmission Rights Administrative Service Cost Recovery Adder of the Midwest ISO OATT or any successor Tariff, plus

(b) The Midwest ISO Management Costs billed KU under Service Schedule 17 – Energy Market Support Administrative Service Cost Recovery Adder of the Midwest ISO OATT or any successor Tariff, plus

(c) The Midwest ISO Financial Transmission Rights net costs and revenues transaction amounts charged/credited KU on behalf of electric retail customers, plus

(d) The Midwest ISO Day Ahead Energy Market net costs and revenues amounts charged/credited KU on behalf of electric retail customers, plus

(e) The Midwest ISO Real-Time Energy Market net costs and revenues amounts charged/credited KU on behalf of electric retail customers, plus

(f) Other Midwest ISO net costs and revenues amounts charged/credited KU on behalf of electric retail customers pursuant to the EMT or any successor Tariff.

(3) The Balancing Adjustment (BA) shall be the difference between the amounts billed from application of the MISO Cost Recovery Component (MCRC) in the second preceding month and the calculated amount of recovery (NCR + BA) in the fourth preceding month.

(4) The Average Monthly Billed Kilowatt-Hours (S) shall be the 12 month average billed kilowatt-hour sales for the 12 months ending in the second preceding month of the rate schedules to which this mechanism is applicable.

MIDWEST ISO — DAY AHEAD SETTLEMENT STATEMENT

Asset Owner Name:	**LGE**
Asset Owner ID:	**1-3L0Q3**
Timestamp:	**11/16/2004**
Scheduled Execution Date:	**11/17/2004**
Operating Date:	**11/10/2004**
Statement ID:	**DA_LGE_11102004-S7**

Statement Line Items

Settlement Type	S7	Total
Day Ahead Market Administration Amount	9,650.66	9,650.66
Day Ahead Asset Energy Amount	356,549.12	356,549.12
Day Ahead Financial Bilateral Transaction Congestion Amount	0.00	0.00
Day Ahead Financial Bilateral Transaction Loss Amount	0.00	0.00
Day Ahead Rebate of Congestion on Grandfathered Agreements	0.00	0.00
Day Ahead Rebate of Losses on Grandfathered Agreements	0.00	0.00
Day Ahead Non-Asset Energy Amount	0.00	0.00
Day Ahead Revenue Sufficiency Guarantee Distribution Amount	279.83	279.83
Day Ahead Revenue Sufficiency Guarantee Make Whole Payment Amt	0.00	0.00
Day Ahead Virtual Energy Amount	0.00	0.00

MIDWEST ISO

REAL TIME SETTLEMENT STATEMENT

Asset Owner Name:	**LGE**
Asset Owner ID:	**1-3L0Q3**
Timestamp:	**11/16/2004**
Scheduled Execution Date:	**11/17/2004**
Operating Date:	**11/10/2004**
Statement ID:	**RT_LGE_11102004-S7**

Statement Line Items

Settlement Type	S7	Total
Real Time Market Administration Amount	4,146.82	4,146.82
Real Time Asset Energy Amount	38,287.75	38,287.75
Real Time Financial Bilateral Transaction Congestion Amount	0.00	0.00
Real Time Financial Bilateral Transaction Loss Amount	0.00	0.00
Real Time Grandfathered Agreement Congestion Rebate Dist Amount	0.00	0.00
Real Time Distribution of Losses Amount	-123,689.22	-123,689.22
Real Time Miscellaneous Amount	0.00	0.00
Real Time Non-Asset Energy Amount	0.00	0.00
Real Time Net Inadvertent Distribution Amount	61,153.61	61,153.61
Real Time Revenue Neutrality Distribution Amount	-661,451.44	-661,451.44
Real Time Revenue Sufficiency Guarantee First Pass Dist Amount	289.02	289.02
Real Time Revenue Sufficiency Guarantee Second Pass Dist Amount	0.00	0.00
Real Time Revenue Sufficiency Guarantee Make Whole Payment Amt	0.00	0.00
Real Time Uninstructed Deviation Amount	574,036.84	574,036.84
Real Time Virtual Energy Amount	0.00	0.00

MIDWEST ISO — FTR SETTLEMENT STATEMENT

Asset Owner Name: LGE
Asset Owner ID: 1-3L0Q3
Timestamp: 11/16/2004
Scheduled Execution Date: 11/17/2004
Operating Date: 11/10/2004
Statement ID: FTR_LGE_11102004-S7

Statement Line Items

Settlement Type	S7	Total
Financial Transmission Rights Market Administration Amount	4,256.56	4,256.56
Financial Transmission Rights Hourly Allocation Amount	-691.01	-691.01
Financial Transmission Rights Monthly Allocation Amount	0.00	0.00
Financial Transmission Rights Transaction Amount	0.00	0.00
Financial Transmission Rights Yearly Allocation Amount	0.00	0.00

LOUISVILLE GAS AND ELECTRIC COMPANY
MISO EMT COST RECOVERY MECHANISM
Calculation of MISO Cost Recovery Component (MCRC) Rate

For the Expense Month Ended March 31, 2005

MCRC = (NCR + BA) / S

Determination of MISO Cost Recovery Component (MCRC) Rate:

NCR = MISO Net Costs and Revenues for Current Expense Month	=
BA = Balance Adjustment Amount	= ____________
Net Monthly MISO Cost Recovery Amount for Current Expense Month (NCR+BA)	=
S = Average Monthly Billed Kilowatt-Hours for the 12 Months Ending with the Current Expense Month	=
MISO Cost Recovery Component Rate: MCRC = Net Monthly MISO Cost Recovery Amount (NCR+BA) / S ; as a rate per kWh	=

Determination of Balancing Adjustment (BA):

A. Net Monthly MISO Cost Recovery Amount (NCR+BA) for *[fourth preceding month]*	=
B. Actual Billed MISO EMT Cost Recovery Mechanism Revenues for *[second preceding month]*	= ____________
C. BA = Balance Adjustment Amount for Current Expense Month (A - B)	=

Effective Date for Billing: *[Month]* Billing Cycle beginning on *[Month]* 1, 2005

Submitted by: ______________________________

Title: Manager, Rates

Date Submitted: ______________________________

LOUISVILLE GAS AND ELECTRIC COMPANY
MISO EMT COST RECOVERY MECHANISM
MISO Net Costs and Revenues on behalf of Electric Retail Customers Computation of NCR

For the Expense Month Ended March 31, 2005

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Cost / Revenue Charge Types	Schedule 16 FTR Administrative Amounts	Schedule 17 Energy Market Support Administrative Amounts	FTR Transaction Amounts	Day Ahead Energy Market Amounts	Real-Time Energy Market Amounts	Other EMT Amounts	NCR = Monthly MISO Net Costs/Revenues as of 3/31/2005
							(2)+(3)+(4)+(5)+(6)+(7)
							$ -
							$ -
							$ -
							$ -
							$ -
							$ -
							$ -
							$ -
Totals	$ -	$ -	$ -	$ -	$ -	$ -	$ -

LOUISVILLE GAS AND ELECTRIC COMPANY
MISO EMT COST RECOVERY MECHANISM
Average Monthly Billed Kilowatt-Hours Computation of S

For the Expense Month Ended March 31, 2005

Electric Retail Sales	
11th Previous Month	
10th Previous Month	
9th Previous Month	
8th Previous Month	
7th Previous Month	
6th Previous Month	
5th Previous Month	
4th Previous Month	
3rd Previous Month	
2nd Previous Month	
Previous Month	
Current Month	
S = Average Monthly Billed Kilowatt-Hours for 12 Months Ending Current Expense Month	

KENTUCKY UTILITIES COMPANY
MISO EMT COST RECOVERY MECHANISM
Calculation of MISO Cost Recovery Component (MCRC) Rate

For the Expense Month Ended March 31, 2005

MCRC = (NCR + BA) / S

Determination of MISO Cost Recovery Component (MCRC) Rate:

NCR = MISO Net Costs and Revenues for Current Expense Month	=	
BA = Balance Adjustment Amount	=	
Net Monthly MISO Cost Recovery Amount for Current Expense Month (NCR+BA)	=	
S = Average Monthly Billed Kilowatt-Hours for the 12 Months Ending with the Current Expense Month	=	
MISO Cost Recovery Component Rate: MCRC = Net Monthly MISO Cost Recovery Amount (NCR+BA) / S ; as a rate per kWh	=	

Determination of Balancing Adjustment (BA):

A Net Monthly MISO Cost Recovery Amount (NCR+BA) for *[fourth preceding month]*	=	
B. Actual Billed MISO EMT Cost Recovery Mechanism Revenues for *[second preceding month]*	=	
C. BA = Balance Adjustment Amount for Current Expense Month (A - B)	=	

Effective Date for Billing: *[Month]* Billing Cycle beginning on *[Month]* 1, 2005

Submitted by: ______________________

Title: Manager, Rates

Date Submitted: ______________________

KENTUCKY UTILITIES COMPANY
MISO EMT COST RECOVERY MECHANISM
MISO Net Costs and Revenues on behalf of Electric Retail Customers Computation of NCR

For the Expense Month Ended March 31, 2005

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Cost / Revenue Charge Types	Schedule 16 FTR Administrative Amounts	Schedule 17 Energy Market Support Administrative Amounts	FTR Transaction Amounts	Day Ahead Energy Market Amounts	Real-Time Energy Market Amounts	Other EMT Amounts	NCR = Monthly MISO Net Costs/Revenues as of 3/31/2005
							(2)+(3)+(4)+(5)+(6)+(7)
							$ -
							$ -
							$ -
							$ -
							$ -
							$ -
							$ -
							$ -
Totals	$ -	$ -	$ -	$ -	$ -	$ -	$ -

KENTUCKY UTILITIES COMPANY
MISO EMT COST RECOVERY MECHANISM
Average Monthly Billed Kilowatt-Hours Computation of S

For the Expense Month Ended March 31, 2005

Electric Retail Sales	
11th Previous Month	
10th Previous Month	
9th Previous Month	
8th Previous Month	
7th Previous Month	
6th Previous Month	
5th Previous Month	
4th Previous Month	
3rd Previous Month	
2nd Previous Month	
Previous Month	
Current Month	
S = Average Monthly Billed Kilowatt-Hours for 12 Months Ending Current Expense Month	