



Elizabeth O'Donnell
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Kentucky Public Service Commission
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July 14, 2006

RE: *In the Matter of the Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Authority to Transfer Functional Control of Their Transmission System*
Case No. 2005-00471

Dear Ms. O'Donnell:

The purpose of this letter is to provide the Midwest Independent Transmission System Operator, Inc. ("MISO") exit status update required by ordering paragraph number four of the Commission's May 31, 2006 Order ("May 31 Order") in Case No. 2003-00266.¹ Although the Companies were not able to exit MISO by the July 1, 2006, the date set out in the May 31 Order, the Companies have now obtained the regulatory approvals necessary to complete their exit from MISO by September 1, 2006. As further described below, the only remaining regulatory step the Companies must take is to file with the Federal Energy Regulatory Commission ("FERC") an additional compliance

¹ *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator, Inc.*

filing to revise certain tariff and rate sheet language. The Companies will make this filing by August 6, 2006, and expect to complete exit from MISO on September 1.

As the Commission is aware, on May 31, 2006, the Commission issued its Final Order in Case No. 2003-00266, granting the Companies authority to withdraw from membership in MISO. On July 6, 2006, in this proceeding the Commission issued an order ("July 6 Order") granting the Companies authority under KRS 278.218 to transfer the requisite operational control of their transmission assets to the Tennessee Valley Authority ("TVA") and the Southwest Power Pool, Inc. ("SPP"), to act as the Companies' reliability coordinator and independent transmission organization, respectively. The Commission conditioned the July 6 Order on receiving from the Companies a statement that the Companies' exit from MISO would not result in a material diminution of the Companies' current, pre-MISO exit market-based rate authority or the market-based rate authority the Companies requested to be effective post-MISO exit in FERC Docket No. ER06-1046-000 et al. After having received an order in said proceeding, the Companies filed with the Commission on July 7, 2006, the required Statement of No Material Diminution of Market-Based Rate Authority. That Statement also conveyed to the Commission a copy of the July 6, 2006 letter order in which FERC's Director, Division of Tariffs and Market Development -- West, accepted for filing, *inter*

alia, the Companies' requested market-based rate authorizations to be effective upon the Companies' exit from MISO.

On July 7, 2006, FERC issued two orders important to the Companies' exit from MISO. (A copy of the orders is attached hereto as Appendix A.) First, FERC denied MISO's petition for rehearing of FERC's March 17, 2006 order authorizing the Companies to exit MISO in favor of the Companies' proposed arrangement with TVA and SPP. Second, FERC conditionally accepted the Companies' compliance filing, a compliance filing FERC's March 17, 2006 order required. FERC further required that the Companies submit an additional compliance filing within thirty days of the order's issuance (*i.e.*, by August 6, 2006). The required compliance filing revisions will not substantively impact the Companies' TVA-SPP proposal. Thus, the Companies will make the required filing by August 6, 2006.

As the Commission is also aware, receiving the necessary regulatory approvals by July 7, 2006, was crucial to the Companies' ability to exit MISO by September 1, 2006. As discussed in the Companies' Third and Fourth Amended Joint Applications in this proceeding, as well as in the Companies' and MISO's June 5, 2006 joint letter to FERC, July 7, 2006, was the last day that the Companies could rescind certain forms they had filed with MISO on June 14, 2006, which forms directed MISO to remove the Companies from MISO's market modeling, a necessary step to complete the Companies' exit

from MISO. The Companies had stated in their Joint Applications that they would rescind the forms if they did not receive the requisite regulatory approvals by July 7, 2006. Having received them, however, the Companies did not rescind the forms and are on track to exit completely from MISO by September 1, 2006.

The Companies will keep the Commission informed of important developments regarding their exit from MISO. If you have any questions or would like additional information, please do not hesitate to contact me.

Sincerely,

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

Kent Blake

cc: Parties of Record