



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

December 20, 2004

RECEIVED

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

DEC 20 2004

PUBLIC SERVICE
COMMISSION

RE: The Application of Louisville Gas and Electric Company for Approval of its 2004 Compliance Plan for Recovery by Environmental Surcharge - Case No. 2004-00421

Dear Ms. O'Donnell:

Enclosed please find an original and ten (10) copies of Louisville Gas and Electric Company's ("LG&E") Application and Testimonies, in two volumes, in the above-referenced docket. Volume I includes:

- LG&E's Application,
- Kent W. Blake's Testimony, and
- Sharon L. Dodson's Testimony and Exhibits.

Volume II includes:

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

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,

Kent W. Blake

cc: Hon. Elizabeth E. Blackford
Hon. Michael L. Kurtz

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY FOR APPROVAL)	
OF ITS 2004 COMPLIANCE PLAN FOR)	CASE NO. 2004-00421
RECOVERY BY ENVIRONMENTAL)	
SURCHARGE)	

APPLICATION

Louisville Gas and Electric Company (“LG&E”), pursuant to KRS 278.183 and 807 KAR 5:001, Sections 8 and 9, hereby petitions the Kentucky Public Service Commission (“Commission”) by application for approval of an amended Compliance Plan for purposes of recovering the costs of new and additional pollution control facilities and to amend its Electric Rate Schedule ECR. These compliance costs are incurred in meeting the sulfur dioxide (“SO₂”) emissions limits mandated by the Environmental Protection Agency (“EPA”) and 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, 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 391,000 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. 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, Sharon L. Dodson, John P. Malloy, Valerie L. Scott and Robert M. Conroy, all of which accompany this Application and are incorporated by reference.

5. 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 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.

6. Pursuant to KRS 278.183, LG&E 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.

7. LG&E is adding seven new pollution control projects to its Compliance Plan to reflect its plans for complying with environmental requirements related to SO₂ emissions and fly and 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.

8. These new pollution control projects are:
 - a. Special Waste Landfill Expansion at Mill Creek Station;
 - b. Special Waste Landfill Expansion at Cane Run Station;
 - c. Scrubber Refurbishment at Trimble County Unit 1;
 - d. Scrubber Refurbishment at Cane Run Unit 6;
 - e. Scrubber Refurbishment at Cane Run Unit 5;
 - f. Scrubber Performance Improvements at Trimble County Unit 1;
 - g. 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 \$40.2 million.

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

10. The testimony of Ms. Dodson describes the environmental regulatory requirements faced by LG&E, including a description of the background surrounding the proposed Clean Air Interstate Rule (“CAIR”) and proposed mercury and fine particulate rules. Ms. Dodson’s testimony also shows how the pollution control facilities in the seven projects in LG&E’s 2004 Plan satisfy LG&E’s environmental obligations.

11. The testimony of Mr. Malloy describes the need for the seven new projects in LG&E's 2004 Plan. His testimony also shows that the seven projects are a reasonable method of meeting applicable environmental regulations. Finally, Mr. Malloy 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.

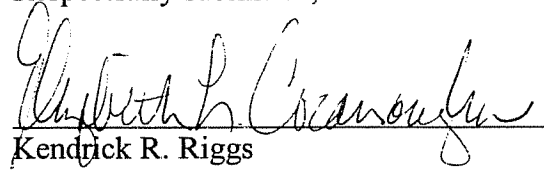
12. The testimony of Ms. Scott explains LG&E's reporting and accounting for the operation and maintenance expenses associated with the pollution control facilities described in Mr. Malloy's testimony and affirms that the environmental compliance costs LG&E proposes to recover through its surcharge are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

13. The testimony of Mr. Conroy explains how the surcharge for the 2004 Plan will be calculated and billed under LG&E'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 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, Louisville Gas and Electric Company hereby requests the Commission enter an order before June 20, 2005: (1) approving LG&E's 2004 Plan consisting of six new capital projects and the emission allowance project to meet federal, state or local environmental regulations; (2) approving LG&E's revised Electric Rate Schedule ECR effective for service rendered on and after July 1, 2005; (3) approving LG&E's overall return on capital, including the return on equity, as described herein; and (4) approving the reporting formats proposed by LG&E herein for use in each LG&E monthly surcharge filing beginning July 1, 2005.

Dated: December 20, 2004

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kendrick R. Riggs". The signature is written in a cursive style with a horizontal line underneath it.

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

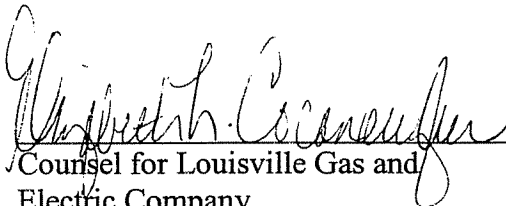
Counsel for Louisville Gas and
Electric Company

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 20th 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



Counsel for Louisville Gas and
Electric Company

Compliance Plan

**LOUISVILLE GAS AND ELECTRIC COMPANY
2004 ENVIRONMENTAL COMPLIANCE PLAN**

Project	Air Pollutant or Waste/By-Product To Be Controlled	Control Facility	Generating Station	Environmental Regulation*	Environmental Permit*	Actual or Scheduled Completion	Actual (A) or Estimated (E) Project Cost
11	Fly & Bottom Ash	Landfill	Mill Creek Station	401 KAR Chapter 5 401 KAR Chapter 45	KPDES - KY0003221 KDWM - 056-00029	2008	\$12.5 M (E)
12	Fly & Bottom Ash	Landfill	Cane Run Station	401 KAR Chapter 5 401 KAR Chapter 45	KPDES - KY0002062 KDWM - 056-00030	2015	\$4.1 M (E)
13	SO ₂	Flue Gas Desulfurization	Trimble Co. Unit 1	Clean Air Act (1990)	Title V Operating Permit V-02-043	2009	\$9.5 M (E)
14	SO ₂	Flue Gas Desulfurization	Cane Run Unit 6	Clean Air Act (1990)	Title V Operating Permit 175-00-TV (R1)	2009	\$5.2 M (E)
15	SO ₂	Flue Gas Desulfurization	Cane Run Unit 5	Clean Air Act (1990)	Title V Operating Permit 175-00-TV (R1)	2008	\$2.8 M (E)
16	SO ₂	Flue Gas Desulfurization	Trimble Co. Unit 1	Clean Air Act (1990)	Title V Operating Permit V-02-043	2005	\$6.1 M (E)
17	SO ₂	Emission Allowances	All Plants	Clean Air Act (1990)	Phase II Acid Rain Permits	2010	\$10.5 M (E)

*Sponsored by Witness Dodson

Statutory Notice

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY FOR APPROVAL)	
OF ITS 2004 COMPLIANCE PLAN FOR)	CASE NO. 2004-00421
RECOVERY BY ENVIRONMENTAL)	
SURCHARGE)	

STATUTORY NOTICE

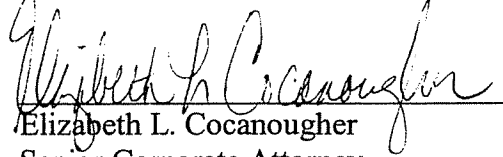
Louisville Gas and Electric Company (“LG&E”), by counsel, informs the Kentucky Public Service Commission (“Commission”) that it is engaged in business as an operating public utility, principally furnishing retail gas and electric service in Jefferson County, Kentucky and portions of other counties in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

Pursuant to KRS 278.183, LG&E hereby gives notice to the Commission that, on this 20th day of December 2004, it files herewith its application for approval of an amended compliance plan for purposes of recovering the costs of new and additional pollution control facilities and to amend 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 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 mailed to, via overnight mail, postage prepaid, to Elizabeth E. Blackford, Assistant Attorney General, Office of Rate Intervention, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601; and Michael L. Kurtz, Boehm, Kurtz & Lowry, 36 East Seventh Street, Suite 1510, Cincinnati, Ohio 45202, this 20th day of December 2004.


Counsel for Louisville Gas and
Electric 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.

$$\text{CESF} = \text{E}(m) / \text{R}(m)$$

$$\text{MESF} = \text{CESF} - \text{BESF}$$

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, $\text{E}(m) = [(\text{RB}/12) (\text{ROR} + (\text{ROR} - \text{DR}) (\text{TR} / (1 - \text{TR}))] + \text{OE}$
 - a) Where RB is the Total Environmental Compliance Rate Base.
 - b) Where ROR is the Rate of Return on 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. 2000-386, 2002-147, and 2004-00421.
- 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.

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

Issued By

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

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

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 LOUISVILLE GAS)
AND ELECTRIC COMPANY FOR APPROVAL)
OF ITS 2004 COMPLIANCE PLAN FOR) **CASE NO. 2004-00421**
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 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 20th day of December 2004, filed an application for approval of an amended compliance plan for purposes of recovering the costs of new and additional pollution control facilities and to amend 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:

Broadway Office Complex, Louisville, Ky.

Bardstown, Kentucky Office

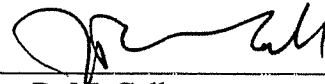
Muldraugh, Kentucky Compressor Station

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.

That more than twenty (20) customers will be affected by said change by way of an increase in their bills, and that on the 14th day of December 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 December 13, 2004, a notice of the filing of LG&E'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, Louisville Gas and Electric 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.



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

NOTICE TO CUSTOMERS OF
LOUISVILLE GAS AND ELECTRIC COMPANY

RECOVERY BY ENVIRONMENTAL SURCHARGE OF LG&E'S 2004
ENVIRONMENTAL COMPLIANCE PLAN

PLEASE TAKE NOTICE that on December 20, 2004, Louisville Gas and Electric Company ("LG&E") will file with the Kentucky Public Service Commission ("Commission") in Case No. 2004-00421, an Application pursuant to Kentucky Revised Statute 278.183 for approval of an amended compliance plan ("LG&E'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 LG&E'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 LG&E to continually build and upgrade equipment or facilities required to continue to operate in an environmentally sound manner. Specifically, in 2005 LG&E will expand its special waste landfills at the Mill Creek Generating Station and the Cane Run Generating Station at Louisville, Kentucky to meet by-product disposal and water quality standards. LG&E will also rebuild the flue gas desulfurization systems at the Mill Creek and Cane Run Stations as well as the Trimble County Generating Station at Bedford, Kentucky to meet current environmental SO₂ emission limitations. The total capital cost of these new pollution control facilities is estimated to be \$40.2 million. In addition to the construction of these new pollution control facilities, LG&E expects, beginning in 2005 and continuing through 2008, to sell emission allowances to Kentucky Utilities Company ("KU") at market prices. The proceeds from the sale of these emission allowances, based on LG&E's current forecast of market prices, is estimated to be a total of \$35.5 million from 2005 through 2008. In 2009 and 2010, LG&E anticipates purchasing emission allowances from KU and/or the market at then-current market prices.

The estimated impact on a residential customer using 1,000 kilowatt hours per month is expected to be an initial increase of \$0.14 for LG&E customers in 2005, with the maximum increase expected to be \$0.32 in 2008. These impacts do not include any potential reductions that customers will realize from the aforementioned sale of emission allowances to KU or potential increase in environmental compliance costs from the aforementioned purchase of emission allowances beginning in 2009.

The Environmental Surcharge Application described in this Notice is proposed by LG&E. However, the Public Service Commission may make an order modifying or denying LG&E'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. 2004-00421. 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. A copy of the Application and testimony will be available for public inspection at LG&E'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 LOUISVILLE GAS)	
AND ELECTRIC COMPANY FOR APPROVAL)	
OF ITS 2004 COMPLIANCE PLAN FOR)	CASE NO. 2004-00421
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 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 20th day of December 2004, filed an application for approval of an amended compliance plan for purposes of recovering the costs of new and additional pollution control facilities and to amend 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:

Broadway Office Complex, Louisville, Ky.

Bardstown, Kentucky Office

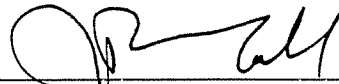
Muldraugh, Kentucky Compressor Station

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.

That more than twenty (20) customers will be affected by said change by way of an increase in their bills, and that on the 14th day of December 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 December 13, 2004, a notice of the filing of LG&E'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, Louisville Gas and Electric 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.



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