



LG&E Energy LLC
220 West Main Street
P.O. Box 32030
Louisville, Kentucky 40232
(502) 627-3450
(502) 627-3367 FAX

December 20, 2004

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DEC 20 2004

PUBLIC SERVICE
COMMISSION

VIA HAND DELIVERY

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: 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 ✓

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

Dear Ms. O'Donnell:

Enclosed please find and accept for filing two originals and five copies each of a Stipulation and Recommendation for the above-referenced matter. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Very truly yours,

Elizabeth L. Cocanougher

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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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) **CASE NO. 2004-00459**
THE PASS-THROUGH OF MISO-RELATED)
REVENUES AND COSTS NOT ALREADY)
INCLUDED IN EXISTING BASE RATES)

In the Matter of:

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

STIPULATION AND RECOMMENDATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies"), Commonwealth of Kentucky, ex. rel. Gregory Stumbo, Attorney General, by and through the Office of Rate Intervention ("the Attorney General") and Kentucky Industrial Utility Customers, Inc. ("KIUC"), each by their respective counsel, hereby stipulate as follows:

1. The Companies have filed applications in the above-captioned cases, requesting the approval of respective ratemaking mechanisms for the pass-through of the monthly net costs and revenues that will be generated in connection with the Midwest Independent Transmission System Operator, Inc. ("MISO")'s Open Access Transmission and Energy Markets Tariff ("EMT"), to the extent such costs and revenues are not already included in LG&E's or KU'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 and KU are members of MISO and effective March 1, 2005, will begin participating in these wholesale energy markets under the terms and conditions of the EMT.

2. The Attorney General has been granted intervention in Case Nos. 2004-00459 and 2004-00460. KIUC has been granted intervention in Case No. 2004-00460.

3. An informal conference was held at the Commission offices on December 17, 2004 for the purpose of discussing the issues in the cases. During the conference, the Attorney General and KIUC raised the issue of whether the Commission has the authority to approve a tariff to track new costs and revenues such as the MISO-related revenues and expenses outside of a proceeding for a general adjustment in base rates. The Attorney General and KIUC stated that they want to formally raise this issue before the Commission through motions to dismiss. The Companies stated they would oppose such motions.

4. To resolve the issue raised by the Attorney General and KIUC and allow the Companies an opportunity to consider and possibly propose an alternative resolution of the issues in these cases, the parties stipulate and recommend the Commission enter a procedural order:

- a. Suspending the proposed tariffs for up to five months or through May 31, 2005, to provide additional time to investigate the tariffs;
- b. Determining that the act of suspending the tariffs pursuant to this Stipulation shall not be construed as a waiver of or prejudice to the Commission's authority to subsequently dismiss the Company's tariff applications or the position of any party in these proceedings to challenge the Companies' tariff filings on any basis,

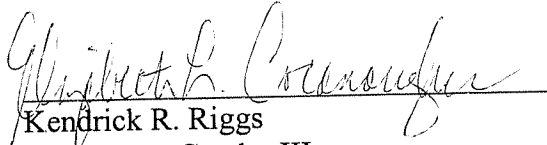
including the issue of whether the Commission has the authority to approve a tariff to track MISO-related revenues and expenses outside of a proceeding for a general adjustment in base rates.

- c. Establishing a procedural schedule requiring any parties wishing to file motions to dismiss to file such motions no later than February 15, 2004; the Companies to have 5 business days to file a response; the movants to have 3 business days to file replies; and thereafter the motions to stand submitted for decision by the Commission.

5. The Attorney General and KIUC have entered into this Stipulation and Recommendation without waiver of or prejudice to any position they may take on the issues in these proceedings, including, but not limited to, the issue of whether the Commission has the authority to approve a tariff to track MISO-related revenues and expenses outside of a proceeding for a general adjustment in base rates.

Dated: December 20, 2004

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kendrick R. Riggs", is written over a horizontal line.

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

Elizabeth L. Cocanougher
Senior Corporate Attorney
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 and Kentucky
Utilities Company

Commonwealth of Kentucky, ex. rel. Gregory
Stumbo, Attorney General, by and through the
Office of Rate Intervention

By: *Elizabeth E. Blackford* *ELB*
Elizabeth E. Blackford, Counsel
with permission

Kentucky Industrial Utility Customers, Inc.

By: David Boehm *gbc*
David Boehm, Counsel *with permission*