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July 7, 2006

VIA HAND DELIVERY

**RECEIVED**

JUL 07 2006

PUBLIC SERVICE  
COMMISSION

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

**Re: In the Matter of 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  
Our File No.: 400001/358881**

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten (10) copies of Louisville Gas and Electric Company's and Kentucky Utilities Company's Statement of No Material Diminution of Market-Based Rate Authority and its Exhibit in the above-referenced matter. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the two additional copies provided 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,

W. Duncan Crosby III

WDC/cja  
Enclosures  
cc: Parties of Record

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUL 07 2006

In the Matter of:

PUBLIC SERVICE  
COMMISSION

APPLICATION OF LOUISVILLE GAS AND )  
ELECTRIC COMPANY AND KENTUCKY )  
UTILITIES COMPANY FOR AUTHORITY ) CASE NO. 2005-00471  
TO TRANSFER FUNCTIONAL CONTROL )  
OF THEIR TRANSMISSION SYSTEM )

STATEMENT OF NO MATERIAL DIMINUTION OF  
MARKET-BASED RATE AUTHORITY

On July 6, 2006, the Kentucky Public Service Commission issued an order granting the application of Louisville Gas and Electric Company and Kentucky Utilities Company (collectively, the "Companies") to transfer functional control of their transmission facilities to the Tennessee Valley Authority ("TVA") and the Southwest Power Pool, Inc. ("SPP"), as Reliability Coordinator and Independent Transmission Organization, respectively. That order was conditioned upon receipt of a statement from the Companies that the scope of any Federal Energy Regulatory Commission ("FERC")-approved market-based rate authority for the Companies to be effective upon exit from the Midwest Independent Transmission System Operator, Inc. ("MISO"), will not result in a material diminution of the market-based rate authority the Companies already possess or that which the Companies proposed in their May 24, 2006 FERC filing in Docket No. ER06-1046-000 et seq. ("Docket ER06-1046").

On July 6, 2006, the Companies received an order from FERC in Docket ER06-1046, accepting for filing the Companies' proposed market-based rate tariffs to be effective upon exit from MISO.<sup>1</sup> A copy of the order is attached as Exhibit 1. Having received FERC's order, and pursuant to the condition imposed by this Commission in its July 6, 2006 order, the Companies

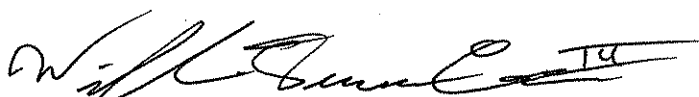
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<sup>1</sup> The Companies filed a copy of the proposed market-based rate tariffs with the Commission in this proceeding by letter dated June 16, 2006.

hereby advise the Commission that the scope of the FERC-approved market-based rate authority for the Companies to be effective upon exit from MISO will not result in a material diminution of the market-based rate authority the Companies already possess or that which the Companies proposed in Docket ER06-1046. Accordingly, pursuant to the authority granted by this Commission and the FERC, the Companies are now proceeding with their plans to complete their exit from MISO and enter into their arrangements with TVA for reliability coordination services and with SPP for independent transmission organization services effective September 1, 2006.

Dated: July 7, 2006

Respectfully submitted,



Kendrick R. Riggs  
William Duncan Crosby III  
Stoll Keenon Ogden PLLC  
2000 PNC Plaza  
500 West Jefferson Street  
Louisville, Kentucky 40202  
Telephone: (502) 333-6000

Elizabeth L. Cocanougher  
Senior Regulatory Counsel  
E.ON U.S. LLC  
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

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that an original and ten copies of this Amended Application was hand delivered on the 7th day of July 2006 to Elizabeth O'Donnell, Executive Director, Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601, and that a copy of this motion was mailed to:

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

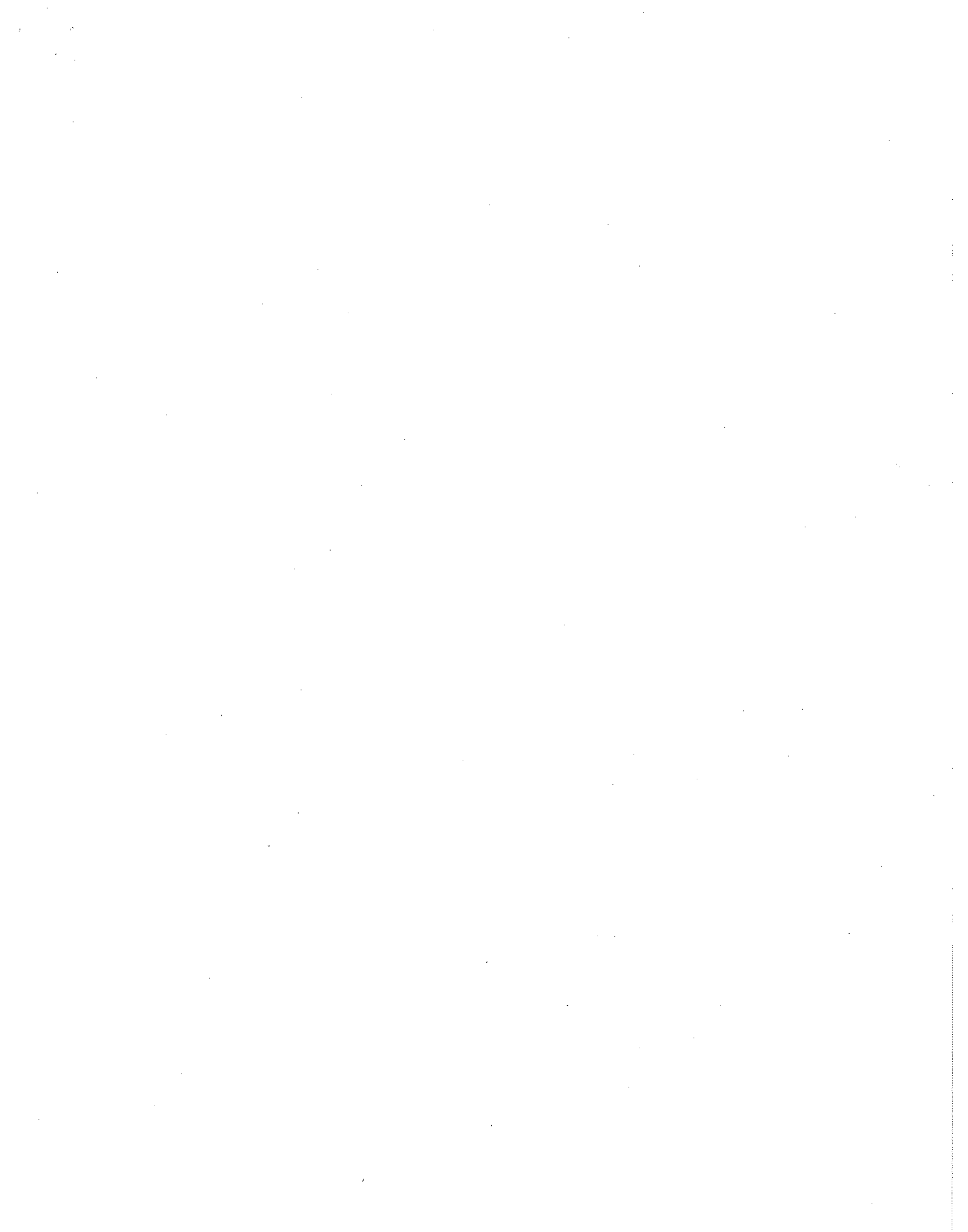
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Counsel for Louisville Gas and Electric  
Company and Kentucky Utilities Company



FEDERAL ENERGY REGULATORY COMMISSION  
Washington, D.C. 20426

In Reply Refer To:  
LG&E Energy Marketing, Inc.  
Louisville Gas and Electric Company  
Kentucky Utilities Company  
Western Kentucky Energy Corporation  
Docket Nos. ER06-1046-000  
ER06-1046-001  
ER06-1046-002  
July 6, 2006

Mr. Jeffrey M. Jakubiak  
Troutman Sanders LLP  
Attorney for LG&E Energy Marketing, Inc., *et al.*  
401 9<sup>th</sup> Street, N.W., Suite 1000  
Washington, D.C. 20004

Mr. Steven Phillips  
E.ON U.S. LLC  
P.O. Box 32010  
220 West Main Street  
Louisville, KY 40232

Reference: Tariff Revisions

Dear Messrs. Jakubiak and Phillips:

On May 24, 2006, as supplemented on June 8, 2006 and June 21, 2006, you filed on behalf of LG&E Energy Marketing, Inc., Louisville Gas and Electric Company (LG&E), Kentucky Utilities Company (KU), and Western Kentucky Energy Corporation (collectively, the LG&E Parties), revised market-based rate tariff sheets that would, among other things, restrict the LG&E Parties' authority to make sales at market-based rates in the LG&E/KU control area and the Big Rivers Electric Corporation (BREC) control area, effective as of the date that LG&E and KU exit the Midwest Independent System Operator, Inc. (Midwest ISO). Your filing states that "the Amended Tariff Sheets do not permit market-based rate sales in the LG&E/KU control area" but that they "do permit sales for which the legal title to power transfers at the interface between the LG&E/KU control area or BREC Control Area and any control area in the [LG&E Parties] do not have market power." (Transmittal at 9) Your filing further states that the

Docket No. ER06-1046-000, *et al.*

2

LG&E Parties' proposed tariff language restricts the re-sale of power sold by the LG&E Parties back into any control area in which the LG&E Parties are restricted from selling at market-based rates. Finally, your filing states that the LG&E parties intend that "this filing will be effective on an interim basis until the [LG&E Parties] file any changes necessary to comply with any final rule in Docket No. RM04-7-000." (Transmittal at 2)

You further submitted revised market-based rate tariff sheets to remove the Commission's market behavior rules.<sup>1</sup>

Your filing was noticed, with comments, protests or interventions due on or before June 14, 2006. None was filed.

Based on the representations and commitments in your filing, including those identified above, and pursuant to the authority delegated to the Director, Division of Tariffs and Market Development - West, under 18 C.F.R. § 375.307, your proposed interim tariff amendments in the referenced dockets are accepted for filing, effective on the date that LG&E and KU exit the Midwest ISO.<sup>2</sup> Specifically, the approvals granted herein on the tariff language controlling sales to the interface of restricted control areas are conditioned on the LG&E Parties filing with the Commission to revise their market-based rate tariffs to comply with any determinations the Commission makes on this issue in a Final Rule in the pending Docket No. RM04-7-000 proceeding where this issue is being considered generically.<sup>3</sup>

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<sup>1</sup> *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 114 FERC ¶ 61,165 (2006).

<sup>2</sup> LG&E Energy Marketing, Inc., Rate Schedule FERC No. 1, Replacement Substitute Second Revised Sheet No. 1 (superseding Substitute Second Revised Sheet No. 1), Second Revised Sheet No. 2 (superseding First Revised Sheet No. 2), First Revised Sheet No. 3 (superseding Original Sheet No. 3); Louisville Gas and Electric Company/Kentucky Utilities Company, FERC Electric Tariff, First Revised Volume No. 3, First Revised Sheet No. 3 (superseding Original Sheet No. 3), First Revised Sheet No. 9 (superseding Original Sheet No. 9), First Revised Sheet No. 10 (superseding Original Sheet No. 10); Louisville Gas and Electric company/Kentucky Utilities Company, FERC Electric Tariff, First Revised Volume No. 2, First Revised Sheet No. 2 (superseding Original Sheet No. 2), First Revised Sheet No. 17 (superseding Original Sheet No. 17), First Revised Sheet No. 18 (superseding Original Sheet No. 18); Western Kentucky Energy Corporation, Rate Schedule FERC No. 1, Substitute Second Revised Sheet No. 1 (superseding Second Revised Sheet No. 1), Second Revised Sheet No. 3 (superseding First Revised Sheet No. 3), First Revised Sheet No. 4 (superseding Original Sheet No. 4).

<sup>3</sup> *See Market-Based Rates for Wholesale Sales of Electric Energy, Capacity and Ancillary Services by Public Utilities, Notice of Proposed Rulemaking*, 71 Fed. Reg.

Docket No. ER06-1046-000, *et al.*

3

This action does not constitute approval of any service, rate, charge, classification, or any rule, regulation, or practice affecting such rate or service provided for in the filed documents; nor shall such action be deemed as recognition of any claimed contractual right or obligation affecting or relating to such service or rate; and such acceptance is without prejudice to any findings or orders which have been or may hereafter be made by the Commission in any proceeding now pending or hereafter instituted by or against any of the applicant(s).

We remind the LG&E Parties that they are required to file a notice of change in status within 30 days of the date that the LG&E and KU withdrawal from the Midwest ISO becomes effective.<sup>4</sup> At that time, the LG&E Parties are to file tariff sheets reflecting the actual date of withdrawal.

This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order, pursuant to 18 C.F.R. § 385.713.

Questions regarding the above order should be directed to:

Federal Energy Regulatory Commission  
Attn: Mary Beth Tighe  
Phone: (202) 502-6452  
Office of Energy Markets and Reliability  
888 First Street, N.E., EM-5.6  
Washington, D.C. 20426

Sincerely,

Steve P. Rodgers, Director  
Division of Tariffs and Market  
Development - West

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33,102 (June 7, 2006), FERC Stats. & Regs. ¶ 32,602 (2006).

<sup>4</sup> *Reporting Requirement for Changes in Status for Public Utilities with Market-Based Rate Authority*, Order No. 652, 70 Fed. Reg. 8,253 (Feb. 18, 2005), FERC Stats. & Regs. ¶ 31,175, *order on reh'g*, 111 FERC ¶ 61,413 (2005).