COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PLAN OF KENTUCKY UTILITIES COMPANY FOR THE VALUE DELIVERY SURCREDIT MECHANISM	)))	CASE NO. 2005-00351
THE PLAN OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE VALUE DELIVERY SURCREDIT MECHANISM	)))	CASE NO. 2005-00352

O R D E R

On September 30, 2005, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") filed applications and testimony in support of their respective proposals to terminate their Value Delivery Team ("VDT") surcredits to their customers on March 31, 2006. Intervention was requested by and granted to Kentucky Industrial Utility Customers, Inc. ("KIUC") and the Office of the Attorney General ("AG").

The Commission established a procedural schedule which provided for discovery, intervenor testimony, applicants' rebuttal testimony, and a public hearing. Discovery was conducted, KIUC and the AG filed their respective testimony in opposition to terminating the LG&E and KU VDT surcredits, and LG&E and KU filed rebuttal testimony. On February 28, 2006, the parties filed a unanimous Settlement Agreement and a joint motion requesting the Commission to approve the Settlement Agreement as a complete resolution of all issues raised. A public hearing was held on March 21, 2006.

BACKGROUND

Under the auspices of their VDT initiative, in 2000, LG&E and KU offered their employees a voluntary separation and retirement plan. More than 1,000 employees accepted the offer, resulting in approximately $201 million in costs to LG&E and KU for their Kentucky jurisdictional operations.[1] Absent Commission approval, Generally Accepted Accounting Principles would have required that LG&E and KU record the total $201 million as an expense in the period the costs were incurred. Since LG&E and KU were projecting that the costs to achieve the workforce reduction would be more than offset by greater expense reductions in future years (i.e., lower annual salaries and benefits expenses), they sought Commission authority to record the $201 million as a deferred debit so it could be amortized over time and offset against the future expected savings.

LG&E and KU filed Case No. 2001-00169 for authority to record the $201 million as a deferred debit and to flow through to ratepayers as a monthly credit a portion of the net savings from the workforce reduction. The net savings are derived by taking each year's gross savings from lower salaries and benefits expenses and then subtracting a ratable portion of the costs to achieve the workforce reduction. Case No. 2001-00169, along with four other cases then pending before the Commission, were resolved in one comprehensive settlement agreement ("2001 Settlement"). LG&E and KU agreed under the 2001 Settlement to amortize the deferred debit over 5 years from April 2001 through March 31, 2006, resulting in a projected 5-year cumulative net savings of $19.8 million

[1] KU incurred costs of $56,267,319 for its electric operations, LG&E incurred $114,569,000 in costs for its electric operations and $29,816,000 in costs for its gas operations.

for LG&E's electric ratepayers, $5.1 million for LG&E's gas ratepayers, and $9.6 million for KU's ratepayers.

The 2001 Settlement did not specify how the savings from the workforce reduction would be reflected for rate-making purposes subsequent to March 31, 2006 when the deferred debit is fully amortized. The parties subsequently agreed as part of the 2004 partial settlements of the LG&E and KU rate cases[2] that 6 months prior to the March 31, 2006 expiration of the surcredits, LG&E and KU would file applications to reflect the future rate-making treatment of the savings from the workforce reduction.

In the pending cases, LG&E and KU have proposed to terminate the surcredits as of March 31, 2006. They claim that ratepayers are currently receiving the benefits of the workforce reduction savings and, therefore, there is no longer a need to pass the savings on through a credit. The AG and KIUC opposed terminating the surcredits, arguing they should continue in order to properly provide customers with their share of the benefits of the workforce reduction. The intervenors stated that the surcredits should continue at their gross amounts, which would reflect the full amount of the savings with no reduction for the costs to achieve since those costs will be fully amortized by March 31, 2006.

The parties entered into a unanimous Settlement Agreement, dated February 27, 2006, which is intended to resolve all issues pending in these two cases. At the March 21, 2006 public hearing, LG&E and KU presented testimony in support of the reasonableness of the Settlement Agreement.

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[2] Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company; Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company.

SETTLEMENT AGREEMENT

The major provisions of the Settlement Agreement, attached as Appendix A to this Order, are that the VDT surcredits be continued at annual levels that reflect an annualization of the net surcredit amounts that were in effect for the first 3 months of 2006. Thus, beginning April 1, 2006, the following annual VDT surcredits will be reflected on customer bills:

- $3,360,000 for KU.
- $7,040,000 for LG&E electric.
- $1,760,000 for LG&E gas.

The Settlement Agreement also provides that the VDT surcredits will continue until the end of the billing month in which rate applications are filed under KRS 278.190, or the Commission reduces existing base rates.

FINDINGS

Based on the evidence of record, and being otherwise sufficiently advised, the Commission finds that the provisions of the Settlement Agreement result in a reasonable resolution of all issues in these cases. The Settlement Agreement is in the public interest and should be approved. The Commission's approval of the Settlement Agreement is based on its reasonableness in toto and does not constitute precedent on any issue.

IT IS THEREFORE ORDERED that:

1. The Settlement Agreement, attached hereto as Appendix A, is approved in its entirety.

2. The VDT surcredits included in the draft tariffs, which are set forth as exhibits to the Settlement Agreement in Appendix A hereto, are fair, just, and reasonable and are approved for bills rendered on and after April 1, 2006.

3. Within 10 days from the date of this Order, LG&E and KU shall file revised tariffs reflecting the surcredit amounts in Appendix A hereto and approved herein. The tariffs shall show the date of issue and that they were issued by authority of this Order.

Done at Frankfort, Kentucky, this 24th day of March, 2006.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NOS. 2005-00351 AND 2005-00352 DATED March 24, 2006

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PLAN OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE VALUE DELIVERY SURCREDIT MECHANISMS	)))	**CASE NO. 2005-00352**
THE PLAN OF KENTUCKY UTILITIES COMPANY FOR THE VALUE DELIVERY SURCREDIT MECHANISM	)))	**CASE NO. 2005-00351**

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 27th day of February, 2006, by and among Louisville Gas and Electric Company ("LG&E"); Kentucky Utilities Company ("KU"); Commonwealth of Kentucky, ex. rel. Gregory D. Stumbo, Attorney General, by and through the Office for Rate Intervention ("AG"); and the Kentucky Industrial Utility Customers, Inc. ("KIUC").

WITNESSETH:

WHEREAS, in accord with Section 3.5 of the Partial Settlement Agreement, Stipulation and Recommendation entered into May 12, 2004, in Case No. 2003-00433, In Re the Matter of: *An Adjustment of the Gas and Electric Rates, Terms and Conditions of Louisville Gas and Electric Company,* LG&E filed on September 30, 2005 with the Kentucky Public Service Commission ("Commission") its Application for an Order approving the withdrawal of the Value Delivery Surcredit mechanisms approved by the Commission in *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for An Order Approving Proposed Deferred Debits and Declaring the Amortization of the Deferred*

Debits to be Included in Earnings Sharing Mechanism, Case No. 2001-169, Order Issued December 3, 2001.

WHEREAS, in accord with Section 3.5 of the Partial Settlement Agreement, Stipulation and Recommendation entered into May 12, 2004, in Case No. 2003-00434, In Re the Matter of: *An Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Company*, KU also filed on September 30, 2005 with the Commission its Application for an Order approving the withdrawal of the Value Delivery Surcredit mechanisms approved by the Commission in *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for An Order Approving Proposed Deferred Debits and Declaring the Amortization of the Deferred Debits to be Included in Earnings Sharing Mechanism*, Case No. 2001-169, Order Issued December 3, 2001.

WHEREAS, the Commission accepted the Applications of LG&E and KU and assigned the above-captioned case numbers to these filings;

WHEREAS, the AG has been granted intervention by the Commission in both of the foregoing proceedings.

WHEREAS, the KIUC, representing the member interests of MeadWestvaco, New Page, DuPont, Ford, Carbide Graphite Group, Oxy Vinyls, Kosmos Cement, General Electric, Arch Chemicals, Golden Foods, Rohm & Haus, TI Automotive, Clopay Corporation, Corning, Inc., Toyota Motor Mfg., Square D, Osram Sylvania, Dow Corning, Lexmark, Alcan, Arvin Meritor, United L-N Glass and North American Stainless, has been granted intervention by the Commission in both of the foregoing proceedings.

WHEREAS, the signatories to this Settlement Agreement desire to settle all issues pending before the Commission in Case Nos. 2005-00351 and 2005-00352.

NOW, THEREFORE, for and in consideration of the premises and conditions set forth herein, the parties hereby agree as follows:

ARTICLE 1 **General Terms**

SECTION 1.1 Continuation of the Value Delivery Surcredit Rider

SECTION 1.1.1 Within 10 days of the approval of this agreement by the Commission, LG&E shall file a new tariff provision extending the Value Delivery Surcredit Rider applicable to its electric operations effective for services rendered on and after April 1, 2006. Such Rider is for the purpose of distributing to LG&E's retail electric customers $7,040,000 in annual billing credits. A copy of the proposed LG&E electric tariff sheet containing the Value Delivery Surcredit Rider provisions is attached as Exhibit A.

SECTION 1.1.2 Within 10 days of the approval of this agreement by the Commission, LG&E shall file a new tariff provision extending the Value Delivery Surcredit Rider applicable to its gas operations effective for services rendered on and after April 1, 2006. Such Rider is for the purpose of distributing to LG&E's retail gas customers $1,760,000 in annual billing credits. A copy of the proposed LG&E gas tariff sheet containing the Value Delivery Surcredit Rider provisions is attached as Exhibit B.

SECTION 1.1.3 Within 10 days of the approval of this agreement by the Commission, KU shall file a new tariff provision extending the Value Delivery Surcredit Rider effective for services rendered on and after April 1, 2006. Such Rider is for the purpose of distributing to KU's retail customers $3,360,000 in annual billing credits. A copy of the proposed KU tariff sheet containing the Value Delivery Surcredit Rider provisions is attached as Exhibit C.

SECTION 1.2 Termination of the Value Delivery Surcredit Riders

Each Value Delivery Surcredit Rider for LG&E or KU shall be individually terminable as provided herein.

SECTION 1.2.1 LG&E's Value Delivery Surcredit Rider contained in LG&E's electric tariff shall terminate at the earlier of (i) the date when LG&E files schedules stating increases to electric base rates pursuant to KRS 278.190 or (ii) the Commission enters an order reducing LG&E electric base rates pursuant to KRS 278.260 and KRS 278.270 based upon test period information that eliminates the current rate treatment of the VDT rate mechanism by pro forma adjustments to remove the reduction to revenues associated with the operation of the VDT surcredit and any operating expense reflecting the amortization of costs to achieve the savings and otherwise does not reflect an adjustment to operating expense for the shareholders' portion of the Value Delivery savings.

SECTION 1.2.2 LG&E's Value Delivery Surcredit Rider contained in LG&E's gas tariff shall terminate at the earlier of (i) the date when LG&E files schedules stating increases to gas base rates pursuant to KRS 278.190 or (ii) the Commission enters an order reducing LG&E's gas base rates pursuant to KRS 278.260 and KRS 278.270 based upon test period information that eliminates the current rate treatment of the VDT rate mechanism by pro forma adjustments to remove the reduction to revenues associated with the operation of the VDT surcredit and any operating expense reflecting the amortization of costs to achieve the savings and otherwise does not reflect an adjustment to operating expense for the shareholders' portion of the Value Delivery savings.

SECTION 1.2.3 KU's Value Delivery Surcredit Rider contained in KU's tariff shall terminate at the earlier of (i) the date when KU files schedules stating increases to base rates pursuant to KRS 278.190 or (ii) the Commission enters an order reducing KU's base rates pursuant to KRS 278.260 and KRS 278.270 based upon test period information that eliminates the current rate treatment of the VDT rate mechanism by pro forma adjustments to remove the reduction to revenues associated with the operation of the VDT surcredit and any operating expense reflecting the amortization of costs to achieve the savings and otherwise does not reflect an adjustment to operating expense for the shareholders' portion of the Value Delivery savings.

SECTION 1.3 Ratemaking Treatment of the Value Delivery Surcredit and Associated Expenses in Base Rates

SECTION 1.3.1 At the time of its next base rate filing pursuant to KRS 278.190, LG&E will make a pro forma adjustment to its revenues from electric operations to remove the reduction to revenues associated with the operation of the Value Delivery Surcredit during the test period. LG&E will also make a pro forma adjustment to its operating expenses to remove any amortization expense associated with the cost to achieve the savings. LG&E will not make an adjustment, by an increase to test year expenses for electric operations, to reflect the shareholders' portion of the Value Delivery savings.

SECTION 1.3.2 At the time of its next base rate filing pursuant to KRS 278.190, LG&E will make a pro forma adjustment to its revenues from gas operations to remove the reduction to revenues associated with the operation of the Value Delivery Surcredit during the test period. LG&E will also make a pro forma adjustment to its operating expenses to remove any amortization expense associated with the cost to achieve the savings. LG&E will not make an adjustment, by an increase to test year expenses for gas operations, to reflect the shareholders' portion of the Value Delivery savings.

SECTION 1.3.3 At the time of its next base rate filing pursuant to KRS 278.190, KU will make a pro forma adjustment to its revenues to remove the reduction to revenues associated with the operation of the Value Delivery Surcredit during the test period. KU will also make a pro forma adjustment to its operating expenses to remove any amortization expense associated with the cost to achieve the savings. KU will not make an adjustment, by an increase to test year expenses, to reflect the shareholders' portion of the Value Delivery savings.

SECTION 1.4 Good Faith Rate Cases

The Companies agree that any base rate filing having the effect of terminating any Value Delivery Surcredit Mechanism will be brought in good faith and for a meritorious purpose.

ARTICLE 2 **Approval of Settlement Agreement**

SECTION 2.1 Request for Approval by the Commission

Following the execution of this Settlement Agreement, the signatories shall cause the Settlement Agreement to be filed with the Commission with a request to the Commission for consideration and approval of this Settlement Agreement by March 24, 2006.

SECTION 2.2 Recommendation for Approval to the Commission

The signatories to this Settlement Agreement shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved. The parties further agree and intend to support the reasonableness of this Settlement before the Commission, and to cause their counsel to do the same, and in any appeal from the Commission's adoption or enforcement of this Settlement Agreement.

SECTION 2.3 Approval of Settlement Agreement in its Entirety

If the Commission issues a final order which accepts and approves this Settlement Agreement in its entirety, then the parties hereto hereby waive any and all claims or demands, asserted or unasserted, directly arising out of or in connection with the applications filed by

LG&E or KU in these proceedings and such claims and demands shall be deemed compromised and settled under and released and discharged by this settlement agreement.

SECTION 2.4 No Approval of Settlement Agreement in its Entirety

If the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the parties hereto from further consideration by the Commission and none of the parties shall be bound by any of the provisions herein; and (b) neither the terms of this Settlement Agreement nor any matter raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories.

SECTION 2.5 Status Quo

Should the Settlement Agreement be voided, vacated or set aside for any reason after the Commission has approved the Settlement Agreement and thereafter any implementation of the terms of the Settlement Agreement has been made, then the parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this settlement agreement.

ARTICLE 3 **Additional Provisions**

SECTION 3.1 This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes

SECTION 3.2 This Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

SECTION 3.3 This Settlement Agreement constitutes the complete agreement and understanding among the parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this settlement agreement.

SECTION 3.4 For the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and negotiation. Notwithstanding anything contained in the Settlement Agreement, the parties recognize and agree that the effects, if any, of any future events upon the operating income of LG&E or KU are unknown, and this Settlement Agreement shall be implemented as written.

SECTION 3.5 Neither the Settlement Agreement nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the settlement of the terms herein or the approval of the Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

SECTION 3.6 Making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of any party.

SECTION 3.7 The signatories hereto warrant that they have informed, advised and consulted with the respective parties hereto in regard to the contents and significance of this agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the parties hereto.

SECTION 3.8 This Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission.

SECTION 3.9 This Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement agreement shall be strictly construed in favor of or against any party.

SECTION 3.10 This Settlement Agreements may be executed in multiple counterparts.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to as of this 27th day of February 2006. By affixing their signatures below, the undersigned parties respectfully request the Commission to issue its Order approving and adopting this Stipulation Agreement the parties hereto have hereunto affixed their signatures.

Louisville Gas and Electric Company
and Kentucky Utilities Company

By: ______________________
Kendrick R. Riggs, Counsel
Elizabeth L. Cocanougher, Counsel

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

By: ______________________
Elizabeth E. Blackford
Assistant Attorney General

Kentucky Industrial Utility Customers, Inc.

By: ______________________
David F. Boehm, Counsel
Michael L. Kurtz, Counsel

EXHIBIT A
LG&E ELECTRIC TARIFF SHEET

Louisville Gas and Electric Company

First Revision of Original Sheet No. 75
P.S.C. of Ky, Electric No. 6

VDSR

Value Delivery Surcredit Rider

APPLICABLE
In all territory served.

AVAILABILITY OF SERVICE
To all electric rate schedules.

RATE
The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall be adjusted by the Value Delivery Surcredit Factor, which shall be calculated in accordance with the following formula:

Value Delivery Surcredit Factor = VDS + BA

Where:
(VDS) is the Value Delivery Surcredit which is based on the total Company net savings that are to be distributed to the Company's customers in each 12-month period.

	Net Savings To be Distributed	Value Delivery Surcredit (VDS)	
Year 1, Dec 1, 2001 to Dec 31, 2001	$1,080,000	2.82%	
Year 2, Jan 1, 2002 to Dec 31, 2002	$1,120,000	0.20%	
Year 3, Jan 1, 2003 to Dec 31, 2003	$4,640,000	0.77%	
Year 4, Jan 1, 2004 to Dec 31, 2004	$5,640,000	0.90%	
Year 5, Jan 1, 2005 to Dec 31, 2005	$6,680,000	1.04%	
Succeeding Annual Periods beginning Jan 1, 2006	$7,040,000	1.00%	(N)

(BA) is the Balancing Adjustment for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The Balancing Adjustment will be determined by dividing the differences between amounts which were expected to be distributed and the amounts actually distributed from the application of the Value Delivery Surcredit Factor from the previous year by the expected retail electric revenues. A final Balancing Adjustment will be applied to customer billings in the second month following the termination of the Value Delivery Surcredit. (T)

TERMS OF DISTRIBUTION
(1) The total distribution to Company's customers will, in no case, be less than the sum of the amounts shown above for Year 1 through Year 5, plus one-twelfth of the amount shown for (T) Succeeding Annual Periods for each month the Value Delivery Surcredit is effective (T) beginning January 1, 2006. (T)

VDSR

Value Delivery Surcredit Rider

(2) On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Surcredit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the Balancing Adjustment (BA) which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under-distributions. (T)

(3) The Value Delivery Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the school tax, the franchise fee, sales tax or similar items. (T)

(4) The Value Delivery Surcredit shall terminate following completion of the billing month in which (T)
the Company files an application for an adjustment of electric base rates pursuant to KRS (T)
278.190 or the Commission enters an order reducing electric base rates pursuant to KRS (T)
278.260 and KRS 278.270. (T)

EXHIBIT B

LG&E GAS TARIFF SHEET

VDSR
Value Delivery Surcredit Rider

APPLICABLE
In all territory served.

AVAILABILITY OF SERVICE
To all gas rate schedules.

RATE
The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall be adjusted by the Value Delivery Surcredit Factor, which shall be calculated in accordance with the following formula:

Value Delivery Surcredit Factor = VDS + BA

Where:

(VDS) is the Value Delivery Surcredit which is based on the total Company net savings that are to be distributed to the Company's customers in each 12-month period.

	Net Savings To be Distributed	Value Delivery Surcredit (VDS)
Year 1, Dec 1, 2001 to Dec 31, 2001	$ 120,000	0.27%
Year 2, Jan 1, 2002 to Dec 31, 2002	$ 320,000	0.12%
Year 3, Jan 1, 2003 to Dec 31, 2003	$1,240,000	0.54%
Year 4, Jan 1, 2004 to Dec 31, 2004	$1,520,000	0.65%
Year 5, Jan 1, 2005 to Dec 31, 2005	$1,800,000	0.72%
Succeeding Annual Periods beginning Jan 1, 2006	$1,760,000 0.43%	

(N)

(BA) is the Balancing Adjustment for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The Balancing Adjustment will be determined by dividing the differences between amounts which were expected to be distributed and the amounts actually distributed from the application of the Value Delivery Surcredit Factor from the previous year by the expected retail gas revenues. A final Balancing Adjustment will be applied to customer billings in the second month following the termination of the Value Delivery Surcredit. (T)

TERMS OF DISTRIBUTION
(1) The total distribution to Company's customers will, in no case, be less than the sum of the amounts shown above for Year 1 through Year 5, plus one-twelfth of the amount shown for Succeeding Annual Periods for each month the Value Delivery Surcredit is effective beginning January 1, 2006. (T) (T) (T)

VDSR

Value Delivery Surcredit Rider

(2) On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Surcredit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the Balancing Adjustment (BA) which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under-distributions. (T)

(3) The Value Delivery Surcredit shall be applied to the customer's bill following the rates and charges for gas service, but before application of the school tax, the franchise fee, sales tax or similar items. (T)

(4) The Value Delivery Surcredit shall terminate following completion of the billing month in which the Company files an application for an adjustment of gas base rates pursuant to KRS 278.190 or the Commission enters an order reducing gas base rates pursuant to KRS 278.260 and KRS 278.270. (T) (T) (T) (T)

EXHIBIT C
KU TARIFF SHEET

VDSR
Value Delivery Surcredit Rider

APPLICABLE
In all territory served.

AVAILABILITY OF SERVICE
To all electric rate schedules.

RATE
The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall be adjusted by the Value Delivery Surcredit Factor, which shall be calculated in accordance with the following formula:

Value Delivery Surcredit Factor = VDS + BA

Where:

(VDS) is the Value Delivery Surcredit which is based on the total Company net savings that are to be distributed to the Company's Kentucky jurisdictional retail customers in each 12-month period.

	Net Savings To be Distributed	Value Delivery Surcredit (VDS)	
Year 1, Dec 1, 2001 to Dec 31, 2001	$ 480,000	0.85%	
Year 2, Jan 1, 2002 to Dec 31, 2002	$ 640,000	0.10%	
Year 3, Jan 1, 2003 to Dec 31, 2003	$2,360,000	0.33%	
Year 4, Jan 1, 2004 to Dec 31, 2004	$2,880,000	0.38%	
Year 5, Jan 1, 2005 to Dec 31, 2005	$3,360,000	0.45%	
Succeeding Annual Periods beginning Jan 1, 2006	$3,360,000	0.35%	(N)

(BA) is the Balancing Adjustment for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The Balancing Adjustment will be determined by dividing the differences between amounts which were expected to be distributed and the amounts actually distributed from the application of the Value Delivery Surcredit Factor from the previous year by the expected Kentucky jurisdictional retail electric revenues. A final Balancing Adjustment will be applied to customer billings in the second month following the termination of the Value Delivery Surcredit. (T)

TERMS OF DISTRIBUTION
(1) The total distribution to Company's customers will, in no case, be less than the sum of the amounts shown above for Year 1 through Year 5, plus one-twelfth of the amount shown for Succeeding Annual Periods for each month the Value Delivery Surcredit is effective beginning January 1, 2006. (T) (T) (T)

VDSR

Value Delivery Surcredit Rider

(2) On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Surcredit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the Balancing Adjustment (BA) which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under-distributions. (T)

(3) The Value Delivery Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the school tax, the franchise fee, sales tax or similar items. (T)

(4) The Value Delivery Surcredit shall terminate following completion of the billing month in which (T)
the Company files an application for an adjustment of electric base rates pursuant to KRS (T)
278.190 or the Commission enters an order reducing electric base rates pursuant to KRS (T)
278.260 and KRS 278.270. (T)