

WITHDRAWAL AGREEMENT

This WITHDRAWAL AGREEMENT (this "Agreement") is entered into this [___]th day of January, 2006, between Louisville Gas and Electric Company and Kentucky Utilities Company, corporations organized pursuant to the laws of the State of Kentucky (collectively, "LG&E"), and the Midwest Independent Transmission System Operator, Inc., a non-profit, non-stock corporation organized pursuant to the laws of the State of Delaware (the "Midwest ISO"). LG&E and the Midwest ISO may sometimes be referred to herein individually as a "Party" and collectively as the "Parties."

WHEREAS, LG&E owns, among other things, an integrated electric transmission system (the "Transmission System"), over which the Midwest ISO currently provides open access transmission service to customers in the LG&E Control Area (as defined in Section 1.6 of LG&E's Open Access Transmission Tariff, filed with the Federal Energy Regulatory Commission (the "Commission") on October 7, 2005 (the "OATT")); and

WHEREAS, LG&E is currently a member of the Midwest ISO and a signatory to the Agreement of Transmission Facilities Owners to Organize the Midwest Independent Transmission System Operator, Inc. (the "Midwest ISO Agreement"); and

WHEREAS, LG&E has a contractual right under the Midwest ISO Agreement to withdraw from the Midwest ISO and the Midwest ISO Agreement pursuant to Article Two, Section X.D of such Midwest ISO Agreement, and pursuant to the procedures provided for in Article Five of the Midwest ISO Agreement; and

WHEREAS, on December 28, 2004, LG&E provided the Midwest ISO with notice required under Article Five, Section I of the Midwest ISO Agreement to allow LG&E to withdraw from the Midwest ISO as of December 31, 2005, or thereafter, subject to the appropriate regulatory approvals; and

WHEREAS, LG&E has sought permission from the Kentucky Public Service Commission and the Commission (collectively, the "Regulatory Authorities") to withdraw from the Midwest ISO; and

WHEREAS, in the event the Regulatory Authorities grant approval for LG&E to withdraw upon terms acceptable to LG&E and LG&E continues the process to withdraw from the Midwest ISO, the Parties seek to memorialize the terms and conditions of LG&E's withdrawal from the Midwest ISO.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I DEFINITIONS

1.1 Unless otherwise defined herein, capitalized terms used in this Agreement shall have the meanings ascribed to them below:

“Agreement” has the meaning given to such term in the recitals.

“Application” means LG&E’s application to the Commission in Docket Nos. ER06-20-000 and EC06-4-000 dated October 7, 2005.

“Business Day” means all days except Saturdays, Sundays and days on which banks in the State of Delaware are authorized or required by applicable law to close.

“Claim” means any and all claims, damages, liabilities, demands, obligations, penalties, fines, losses and judgments, whether based on law, contract, tort or other grounds, whether absolute or contingent, accrued or unaccrued, liquidated or unliquidated, matured or unmatured, and whether at law or in equity.

“Commission” has the meaning given to such term in the recitals.

“Conditional Firm Transmission Service” means firm transmission service in which a customer funds transmission upgrades necessary to accommodate the requested level of firm service.

“Credit Fee” has the meaning given to such term in Section 3.2.

“Dispute” has the meaning given to such term in Section 5.1(a).

“LG&E” has the meaning given to such term in the preamble.

“Midwest ISO Agreement” has the meaning given to such term in the recitals.

“OATT” has the meaning given to such term in the recitals.

“Party” or “Parties” has the meaning given to such terms in the preamble.

“Person” means a corporation, a partnership, a limited liability company, an association, a joint-stock company, a trust, an unincorporated organization or any government or political subdivision thereof.

“RDMP” has the meaning given to such term in Section 3.3.

“Regulatory Authorities” has the meaning given to such term in the recitals.

“Representatives” means, in respect of a Party, the officers, directors, employees, agents, advisors or representatives of such Party.

“Transition Plan” has the meaning given to such term in Section 3.8.

“Transmission System” has the meaning given to such term in the recitals.

“True Up Fee” has the meaning given to such term in Section 3.1(c).

“Withdrawal Date” has the meaning given to such term in Section 3.9.

“Withdrawal Fee” has the meaning given to such term in Section 3.1(a).

1.2 Rules of Interpretation and Construction.

(a) Interpretation. In this Agreement, unless a clear contrary intention appears:

- (i) the singular number includes the plural number and vice versa;
- (ii) reference to any Person includes such Person’s successors and assigns but, if applicable, only if such successors and assigns are permitted by this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually;
- (iii) reference to either gender includes the other gender;
- (iv) reference to any agreement, document or instrument means such agreement, document or instrument as amended or modified from time to time in accordance with the terms thereof;
- (v) reference to any law means such law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder, and reference to any section or other provision of any law means that provision of such law from time to time in effect and constituting the substantive amendment, modification, codification, replacement or re-enactment of such section or other provision;
- (vi) reference to any preamble, recital, Article, Section of or Attachment to this Agreement means such Article or Section thereof or preamble, recital or Attachment thereto;
- (vii) “hereunder”, “hereof”, “hereto” and words of similar import shall be deemed references to this document as a whole and not to any particular Article, Section or other provision thereof; and

(viii) “including” (and with the correlative meaning “include”) means including without limiting the generality of any description preceding such term.

(b) Legal Representation of the Parties. This Agreement was negotiated by the Parties with the benefit of legal representation, and any rule of construction or interpretation otherwise requiring this Agreement to be construed or interpreted against any Party as the drafter shall not apply to any construction or interpretation thereof.

(c) Payments. All payments permitted or required to be made by or on behalf of the Parties under the terms of this Agreement shall be made to the account or accounts designated by the Party to which the payment is owed, by wire transfer, in immediately available funds in the lawful currency of the United States.

ARTICLE II EFFECTIVENESS; NO ACTIONS AGAINST AGREEMENT

2.1 Effectiveness. The Parties acknowledge and agree that:

(a) Articles II and V and Section 3.1(a) (including any defined terms from Article I referenced in Articles II and V and Section 3.1(a)) shall be effective, and the rights and obligations of the Parties under Articles II and V and Section 3.1(a) (including any defined terms from Article I referenced in Articles II and V and Section 3.1(a)), shall be binding upon the Parties, in each case, as of the date of this Agreement; and

(b) Article III (other than Section 3.1(a)) (including any defined terms from Article I referenced in Article III (other than Section 3.1(a))) shall be effective, and the rights and obligations of the Parties under Article III (other than Section 3.1(a)) (including any defined terms from Article I referenced in Article III (other than Section 3.1(a))), shall be binding upon the Parties, in each case, as of the Withdrawal Date.

2.2 No Actions Against this Agreement. Each of the Parties agrees that it shall not initiate or pursue, directly or indirectly, any claim, action or proceeding of any kind challenging the validity or enforceability of this Agreement or the substance of any of the provisions of this Agreement. Notwithstanding anything to the contrary in this Section 2.2, participation as to matters at issue in Docket No. EC06-4-000 and Docket No. ER06-20-000 or any other proceeding before the Regulatory Authorities beyond the matters covered in this Agreement, will not constitute a violation of this Section 2.2; provided, however, that nothing in this sentence shall permit either of the Parties to challenge, directly or indirectly, that the Withdrawal Fee Methodology attached hereto as Attachment A is incomplete or does not satisfy Article Five, Section II B of the Midwest ISO Agreement.

ARTICLE III WITHDRAWAL

3.1 Withdrawal Fee.

(a) On or before the Withdrawal Date, the Midwest ISO shall deliver to LG&E a written statement setting forth the withdrawal fee (the “Withdrawal Fee”) calculated in accordance with a methodology accepted by the Commission (the “Withdrawal Fee Methodology”), together with reasonable supporting information as to the inputs to and calculation of the Withdrawal Fee. The Parties acknowledge and agree that the Withdrawal Fee Methodology attached hereto as Attachment A is complete and satisfies Article Five, Section II B of the Midwest ISO Agreement.

(b) No later than ten (10) Business Days after delivery of the written statement setting forth the Withdrawal Fee pursuant to Section 3.1(a), LG&E shall pay, subject to its rights in Section 3.1(e), to the Midwest ISO the Withdrawal Fee; provided, however, that in no event shall LG&E be obligated to pay the Withdrawal Fee before the Withdrawal Date.

(c) On or before the date which is thirty (30) calendar days after the Withdrawal Date, the Midwest ISO shall deliver to LG&E a written statement of the Withdrawal Fee true up calculated in accordance with the provisions of the Withdrawal Fee Methodology (the “True Up Fee”), together with reasonable supporting information as to the inputs to and calculation of the True Up Fee. No later than thirty (30) calendar days after delivery to LG&E of the statement of the True Up Fee, LG&E or the Midwest ISO, as the case may be, shall pay, subject to its rights in Section 3.1(e), to the other Party the True Up Fee.

(d) The Midwest ISO agrees to make available to LG&E, its accountants and other advisers, such information with respect to the inputs to and calculation of the Withdrawal Fee and True Up Fee as LG&E may reasonably request for the sole purpose of confirming same.

(e) Any dispute between the Parties as to the inputs to or the calculation of the Withdrawal Fee or the True Up Fee shall be resolved pursuant to Section 5.1(a).

3.2 Deferred Revenue Balance. The Parties acknowledge and agree that the Withdrawal Fee Methodology will exclude deferred revenue arising from the Schedule 10 credits afforded to Commonwealth Edison after its withdrawal from the Midwest ISO. On or before February 1st of each calendar year (commencing in the calendar year immediately following the calendar year in which the Withdrawal Date occurs), the Midwest ISO shall deliver to LG&E a written statement of LG&E’s proportionate share of such Schedule 10 credits (the “Credit Fee”), together with reasonable supporting information as to the inputs to and calculation of the Credit Fee. No later than ten (10) Business Days after delivery to LG&E of the statement of the Credit Fee, LG&E shall pay, subject to its rights to dispute the inputs to or calculation of the Credit Fee pursuant to Section 5.1(a), to the Midwest ISO the Credit Fee.

3.3 Users Held Harmless. In satisfaction of the requirements of Article Five, Section II.A of the Midwest ISO Agreement, LG&E will implement the Rate De-Pancaking Maintenance

Plan (“RDMP”) described in Attachment B in accordance with the terms and conditions thereof, as the same may be modified by a final order of the Commission, and any other obligations, provisions, terms and conditions as may be required by a final order of the Commission. Nothing in this Section 3.3 is intended to preclude parties in Docket No. EC06-4-000 and Docket No. ER06-20-000 from raising issues regarding the obligations of LG&E under Article Five, Section II A of the Midwest ISO Agreement.

3.4 Existing Obligations. In satisfaction of the requirements under Article Five, Section II.B of the Midwest ISO Agreement, LG&E shall pay to the Midwest ISO the Withdrawal Fee and the True Up Fee in accordance with Section 3.1. Payment of the fees called for in Section 3.1 shall satisfy LG&E’s financial obligations to the Midwest ISO under Article Five, Section II.B of the Midwest ISO Agreement. The Parties agree that they will honor all payments to one another applicable to time periods prior to the Withdrawal Date pursuant to the Midwest ISO Agreement.

3.5 Construction of Facilities. In satisfaction of the requirements under Article Five, Section II.C of the Midwest ISO Agreement, LG&E agrees to construct the new facilities on its system identified in the Midwest ISO Transmission Expansion Plan 2005, which are shown on Schedule 3.5 attached hereto. LG&E agrees to construct new facilities or facility upgrades on its system called for in generator interconnection agreements that are filed with the Commission prior to the Withdrawal Date or relating to Conditional Firm Transmission Service requests where those requests have been accepted or counter-offered by the Midwest ISO. As of the date of this Agreement, those facilities are likewise shown on Schedule 3.5 attached hereto. Other than as provided for in this Section 3.5, the Parties agree that LG&E will have no further obligations in respect of the construction of new facilities pursuant to an approved plan of the Midwest ISO or otherwise in connection with providing transmission service. Nothing in this Section 3.5 precludes an obligation to construct facilities arising from an order of a court or regulatory authority having jurisdiction over the subject matter, or from any requirement or standard related to safety duly promulgated by NERC or its successor organization.

3.6 Other Obligations. The Parties agree that, as of the Withdrawal Date, LG&E and the Midwest ISO shall not have any obligations which need to be renegotiated pursuant to the requirements under Article Five, Section II.D of the Midwest ISO Agreement. It is the intent of the Parties that the Transition Plan address the scope of “Other obligations” covered by Article Five, Section II.D of the Midwest ISO Agreement.

3.7 Credits. LG&E will receive credits against the amounts owed for post-withdrawal transmission services provided by the Midwest ISO to LG&E up to an amount not to exceed the Withdrawal Fee, as adjusted by the True Up Fee. Such credits will be applied only against the amount LG&E pays for transmission services prior to April 1, 2016, and only with respect to the fixed cost component of Schedule 10, 16 and 17 rates. Such credits shall be determined according to the methodology contained in the Midwest ISO OATT and administered through an alternative Administrative Cost Adder described in Attachment C.

3.8 Transition Plan. LG&E and the Midwest ISO will implement the transition plan attached hereto as Attachment D (the “Transition Plan”) as expeditiously as practicable in order

to facilitate LG&E acquiring operational control of the Transmission System at the earliest possible time after the Withdrawal Date, all in accordance with the terms and conditions of the Transition Plan. If LG&E accepts conditions imposed by the Commission in a final order which substantially alter the terms of the Transition Plan, then LG&E agrees to reimburse the Midwest ISO for the any reasonable costs incurred by Midwest ISO to develop and implement such altered terms of the Transition Plan; provided, however, that LG&E shall retain its right to contest any such costs before the Commission.

3.9 Withdrawal Date. LG&E's withdrawal from the Midwest ISO and the Midwest ISO Agreement shall be effective on the date (the "Withdrawal Date") the Commission designates as the effective date for LG&E's withdrawal from the Midwest ISO and the Midwest ISO Agreement in its order accepting for filing LG&E's Application. Subject to the satisfaction of LG&E's obligations in Article III, the Midwest ISO agrees that all of the requirements under the Midwest ISO Agreement for withdrawal by LG&E from the Midwest ISO and the Midwest ISO Agreement have been satisfied.

3.10 Reversal of Commission's Order Accepting for Filing LG&E's Application.

(a) If, after the Withdrawal Date, the Commission's order accepting for filing LG&E's Application is reversed, then if and when LG&E rejoins the Midwest ISO, the Midwest ISO shall repay to LG&E the Withdrawal Fee, as adjusted by the True Up Fee, together with interest calculated in accordance with Section 3.10(b), net of any amounts paid to LG&E with respect to credits pursuant to Section 3.7, not later than thirty (30) Business Days following receipt of written demand therefor by LG&E. Effective upon such repayment in full, this Agreement shall automatically terminate and be of no further force and effect, except for the provisions of Article IV which shall survive termination of this Agreement.

(b) For purposes of this Agreement, interest shall be calculated based on the rate actually earned by the Midwest ISO.

ARTICLE IV REPRESENTATIONS AND WARRANTIES

Each Party represents and warrants to the other Party as of the date of this Agreement as follows:

(a) it is duly organized, validly existing, and in good standing under the laws of the jurisdiction where it was organized.

(b) Subject to any necessary approvals by federal or state regulatory authorities, it has all necessary limited liability company or corporate power and authority to execute, deliver and perform its obligations under this Agreement, and the execution, delivery and performance by it of this Agreement have been duly authorized by all necessary limited liability company or corporate action on its part.

(c) The execution, delivery and performance by it of this Agreement do not and shall not: (i) violate its organizational documents; (ii) violate any law or government approval applicable to it; or (iii) result in a breach of or constitute a default of any material agreement to which it is a party.

(d) Assuming the due authorization, execution and delivery of this Agreement by the other Party, this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, or other similar laws affecting the enforcement of creditor's rights generally, and by general principles of equity regardless of whether such principles are considered in a proceeding at law or in equity.

(e) Except as disclosed in writing to the other Party, there is no action, suit or proceeding at law or in equity now pending or, to its knowledge, threatened in writing against it before or by any federal, state, foreign or local court, tribunal or governmental agency or authority that might materially delay, prevent or hinder the performance by it of its obligations hereunder or that might have a material adverse effect on the other Party.

ARTICLE V MISCELLANEOUS

5.1 Dispute Resolution.

(a) Any controversy, claim or dispute of whatsoever nature or kind between the Parties arising out of or in connection with this Agreement or its validity or interpretation (each a "Dispute") shall be resolved pursuant to the procedures of this Section 5.1.

(b) If a Dispute arises between the Parties, then either Party may provide written notice thereof to the other Party, including a detailed description of the subject matter of the Dispute (the "Dispute Notice").

(c) Within ten (10) Business Days following the date of the Dispute Notice, the most senior executive responsible for the subject matter of the Dispute from each Party shall meet and in good faith attempt to resolve such Dispute. If the senior executives are unable to resolve the Dispute within ten (10) Business Days of meeting or such later date as the senior executives may mutually agree, then the Dispute shall be referred to the Commission for ultimate resolution.

5.2 Governing Law. This Agreement shall be interpreted, construed, and governed by the laws of the State of Delaware, except to the extent preempted by the laws of the United States.

5.3 Notices. Unless otherwise expressly provided for in this Agreement, all communications and notices to a Party in connection with this Agreement shall be in writing or by facsimile, and any such communications or notices shall become effective (a) upon personal delivery thereof, including, by overnight mail or next Business Day or courier service, (b) in the

case of notice by United States mail, certified or registered, postage prepaid, return receipt requested, upon receipt thereof, (c) in the case of notice by facsimile, upon transmission thereof, provided that in addition to such transmission a confirmation copy of the notice is also provided promptly by either of the methods set forth in clause (a) or (b) above. All notices provided by the means described in clauses (a), (b) or (c) above shall be addressed as provided below, or to such other address as either Party may designate by written notice to the other Party in accordance with this Section 5.3.

If to the Midwest ISO:

Midwest Independent Transmission System Operator, Inc.
Attention: General Counsel
701 City Center Drive
Carmel, IN 46032
Facsimile: 317-249-5912

If to LG&E:

Louisville Gas and Electric Company
Attention: Mark Johnson
119 North 3rd Street
Louisville, Kentucky 40202
Facsimile: (502) 627-4716

and

Kentucky Utilities Company
Attention: Mark Johnson
119 North 3rd Street
Louisville, Kentucky 40202
Facsimile: (502) 627-4716

5.4 Amendments. This Agreement may not be amended, supplemented or otherwise modified, other than pursuant to an instrument or instruments in writing executed by the Parties.

5.5 Successors and Assigns. This Agreement shall inure to the benefit of, and be binding upon, each of the Parties and their respective successors and permitted assigns. Except as provided in this Section 5.5, neither Party shall be permitted, by operation of law or otherwise, to assign, transfer, convey or otherwise dispose of in any manner, directly or indirectly, all or any part of its rights, obligations and interest in this Agreement to another Person without the approval of the other Party. Either Party shall be permitted, without the approval of the other Party, to assign, transfer, convey or otherwise dispose of all or any part of its rights, obligations and interest in this Agreement to a Person who has acquired all or substantially all of the Party's facilities by reason of a merger, consolidation, reorganization, sale, spin-off, foreclosure or otherwise.

5.6 No Implied Waivers. The failure of a Party to insist upon or enforce strict performance of any of the specific provisions of this Agreement at any time shall not be construed as a waiver or relinquishment to any extent of such Party's right to assert or rely upon any such provisions, rights or remedies in that or any other instance, or as a waiver to any extent of any specific provision of this Agreement; rather the same shall be and remain in full force and effect.

5.7 Renegotiation. If any provision of this Agreement, or the application thereof to any person, entity or circumstance, is held by a court or regulatory authority of competent jurisdiction to be invalid, void or unenforceable, or if a modification or condition to this Agreement is imposed by a regulatory authority exercising jurisdiction over this Agreement, then the Parties shall endeavor in good faith to implement such amendment or amendments to this Agreement as will fully comply with the requirements of such court or regulatory authority and as will restore the relative benefits and obligations of the Parties under this Agreement immediately prior to such holding, modification or condition.

5.8 Third-Party Beneficiaries. None of the provisions of this Agreement are intended for the benefit of any Person other than the Parties, their respective successors and permitted assigns.

5.9 Good Faith Efforts. Each Party agrees that it shall in good faith promptly take all reasonable actions necessary to permit such Party to fulfill its obligations under this Agreement. Where the consent, agreement or approval of any Party must be obtained hereunder, such consent, agreement or approval shall not be unreasonably withheld, conditioned or delayed. Where any Party is required or permitted to act, or omit to act, based on its opinion or judgment, such opinion or judgment shall not be unreasonably exercised.

5.10 Descriptive Headings. The descriptive headings of Articles, Sections and other provisions of this Agreement have been inserted for convenience or reference only and will not define, modify, restrict, construe or otherwise affect the construction or interpretation of any of the provisions of this Agreement.

5.11 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the Parties has caused its duly authorized representative to execute this Withdrawal Agreement as of the date first above written.

MIDWEST INDEPENDENT TRANSMISSION
SYSTEM OPERATOR, INC.

By: _____
Name:
Title:

LOUISVILLE GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

KENTUCKY UTILITIES COMPANY

By: _____
Name:
Title:
:

ATTACHMENT A

WITHDRAWAL FEE METHODOLOGY

Basis for Withdrawal Fee Calculation

Article Five, Section II (B) of the Midwest ISO Agreement reads as follows:

“All financial obligations incurred and payments applicable to time periods prior to the effective date of such withdrawal shall be honored by the Midwest ISO and the withdrawing Owner.”

The financial obligations incurred as of the Withdrawal Date will primarily be the liabilities on the Midwest ISO's balance sheet of its financial statements as of the Withdrawal Date as well as the liabilities disclosed in the footnotes to such financial statements.

LG&E shall be responsible for a pro rata share of financial obligations based on the ratio of its billing determinants to the total of all other billing determinants. The final allocation of financial obligations to LG&E shall be based on twelve months of billing determinants preceding the Withdrawal Date.

A preliminary forecast of the Withdrawal Fee shall be prepared using actual data as of August 31, 2005. Given that less than twelve months of historical billing determinants will be available for Schedule 16 and Schedule 17 of the Midwest ISO Tariff the Parties agree to use the actual billing determinants for the five month period April 1, 2005 through August 31, 2005 as the basis for the preliminary forecast of the Withdrawal Fee.

A true up calculation shall occur thirty (30) business days after the Withdrawal Date to account for the substitution of actual financial obligations as of the Withdrawal Date and the actual billing determinant information for the twelve months preceding the Withdrawal Date in lieu of the financial obligations and billing determinants used for the preliminary forecast of the Withdrawal Fee.

Financial Obligations – Withdrawal Fee Calculation

The financial obligations of the Midwest ISO shall be taken from the balance sheet of its financial statements as of the Withdrawal Date and shall include all liabilities disclosed in the footnotes to such financial statements. The liabilities on the balance sheet to be used in the calculation of the financial obligations as of the Withdrawal Date shall be those recorded as Long-Term Liabilities as well as any current portion of a liability included as part of Long-Term Liabilities. The financial obligations calculation shall include all capital lease and operating lease obligations incurred as of the Withdrawal Date. Such obligations have payments that extend into the period of time after the Withdrawal Date. The financial obligations shall also include all interest payments owed until maturity on

all debt outstanding as of the Withdrawal Date as well as all interest payments owed until maturity on all capitalized lease obligations outstanding as of the Withdrawal Date.

The Midwest ISO will credit the total of all financial obligations outstanding as of the Withdrawal Date with the balance in its Cash and Cash Equivalents account as of the Withdrawal Date.

The calculation described in this section yields an outcome that is consistent with the withdrawal obligations described in the Schedule 10, Schedule 16 and Schedule 17 of the Midwest ISO Tariff under the heading “Payments Applicable to Withdrawing Entities”. To illustrate, the withdrawal obligations in Schedule 16 include Deferred Schedule 16 Costs, undepreciated capital expenditures and financing costs associated with the Service (collectively, “Unrecovered Schedule 16 Costs”). This is because the Midwest ISO finances capital expenditures and regulatory assets with debt and collects funds to repay outstanding debt principal from the depreciation charges and amortization charges included on the cost recovery adder. Similar obligations are contained in Schedule 10 and Schedule 17. The example below illustrates the equivalent outcome.

Assume the Midwest ISO borrows \$100 million to finance \$75 million in capital expenditures and \$25 million of pre-operating costs. Further assume the Midwest ISO recovers these costs over a five-year period of time through depreciation and amortization charges, respectively. After three years the Midwest ISO would have recovered \$45 million in cost through depreciation charges and \$15 million through amortization charges. The balance of unrecovered costs would be \$40 million.

Under the Withdrawal Fee calculation described above the financial liability on the books of the Midwest ISO would be \$100 million in outstanding debt offset by \$60 million in cash and cash equivalents. The net financial obligation would therefore be \$40 million. The end result is the same under both methodologies.

However, the total financial obligations extend beyond the \$40 million in this illustrative example because the calculations above did not include the obligation to make interest payments over the life of the debt outstanding as of the Withdrawal Date.

Financial Obligations – Adjustments

The Withdrawal Fee calculation described above is the general approach. Implementation of this general approach will require separation of the financial obligations into three categories: (1) Schedule 10 financial obligations, (2) Schedule 16 financial obligations, and (3) Schedule 17 financial obligations. This separation is necessary because the ratio of LG&E’s billing determinants to all other billing determinants under Schedule 10 will be different than its ratio for Schedule 16 and its ratio for Schedule 17.

Calculation Details

The long-term liabilities of the Midwest ISO disclosed on the balance sheet consist of:

- Accrued Liabilities
- Capitalized Leases, Net of Current Portion
- Deferred Revenue
- Notes Payable

The current portion of capitalized leases will need to be added to the total of the long-term liabilities for the purposes of the Withdrawal Fee calculation to obtain the total obligation outstanding as of the Withdrawal Date.

Notes Payable (e.g., debt) is allocated to Schedule 10, Schedule 16 and Schedule 17 per the provisions of Schedule 16 and Schedule 17 of the Midwest ISO Tariff. The allocation of principal and interest by debt instrument is specified under Variable A.5 of Schedule 16 and Schedule 17. Any debt not allocated to Schedule 16 or Schedule 17 is by definition allocated to Schedule 10.

Capitalized Leases, including the current portion, are associated with specific assets and will be allocated based on the allocation of these assets to Schedule 10, Schedule 16 and Schedule 17. Deferred Revenue is associated with the Illinois Power Settlement accepted by the Commission and is allocated exclusively to Schedule 10. Accrued Liabilities will be allocated one half to Schedule 10 and one half to Schedule 17.

Financial obligations disclosed in the footnotes of the Midwest ISO's financial statements include operating lease obligations and interest payments on outstanding debt obligations. The interest payment obligation is allocated as noted above. Operating lease obligations are associated with specific assets and will be allocated based on the allocation of these assets to Schedule 10, Schedule 16 and Schedule 17.

Given that the Withdrawal Fee is to be paid in full as a condition of withdrawal, the Midwest ISO will earn interest on the funds received to pay the Withdrawal Fee. As such, there is a timing difference between when LG&E pays that portion of the Withdrawal Fee associated with interest and lease obligations and when those obligations are due and payable. To account for this timing difference the Midwest ISO will discount the future interest and lease obligations using discount rate equal to the average rate earned on the Midwest ISO's investment account funds over the three-month period prior to the Withdrawal Date.

Cash and Cash Equivalents will be allocated to Schedule 10, Schedule 16 and Schedule 17 in proportion to the allocation of debt to these schedules.

ATTACHMENT B

DE-PANCAKING MAINTENANCE PLAN

LG&E seeks to ensure that their withdrawal from the Midwest ISO and its institution of an Independent Transmission Organization and a Reliability Coordinator is consistent with the Commission's goal of eliminating transmission rate pancaking. LG&E is also cognizant of the fact that, under Article Five, Section II.A of the Midwest ISO Agreement, its withdrawal from the Midwest ISO must not adversely impact existing transmission customers and must hold existing customers harmless from any changes in rates, terms or conditions of existing transmission service. Accordingly, LG&E has proposed a Rate De-Pancaking Maintenance Plan ("RDMP"), in order to ensure that customers continue to enjoy the same de-pancaked rates which currently are in effect between LG&E's zone, the Midwest ISO and the PJM Interconnection. The RDMP proposes to preserve the *status quo* regarding pancake elimination by implementing a system that mirrors the de-pancaked transmission protocols of the Midwest ISO and PJM. Through this commitment, LG&E seeks to ensure that there are as few economic seams between their system and Midwest ISO/PJM as possible.

In this regard, LG&E will provide point-to-point ("PTP") transmission on their system on a "drive through," "drive in" or "drive out" basis – for service between LG&E's system and points within the existing Midwest ISO and PJM systems, as well as through LG&E's system – on a comparable basis, without the imposition of pancaked base transmission rates for virtually all wheels. LG&E proposes several exceptions to this generally applicable rate mechanism which are intended to avoid gaming, as noted below. LG&E will also provide and facilitate network service between points of receipt and points of delivery on LG&E's system and on the Midwest ISO and PJM systems. LG&E refers to such point-to-point and network service provided under the RDMP as "Reciprocity Firm."¹

LG&E proposes that existing transmission arrangements – both existing Midwest ISO Tariff transmission contracts and GFAs – will enjoy the same service and pricing that such customers receive today. This fact will be true for service which "traverses" LG&E's system and the Midwest ISO/PJM, as well as network and point-to-point arrangements "within" LG&E's transmission system. For new service (*i.e.*, contracts entered into after the Withdrawal Date), LG&E proposes the same de-pancaked service under the RDMP as would be effective today with the exceptions noted below. LG&E's new OATT submitted with LG&E's Application reflects the RDMP proposal described above.

Importantly, LG&E will provide Reciprocity Firm service subject to the Midwest ISO and PJM agreeing that LG&E will receive comparable treatment under the Midwest ISO and PJM tariffs for sales into, through and out of the Midwest ISO and PJM, respectively. In

¹ For new Reciprocity Firm service initiated after the effective date of the proposed rates, LG&E reserves the right to charge the costs of expansion (where applicable) and losses, in accordance with the OATT. Where applicable, customers would bear the costs of expansion, even if base transmission charges would be waived for such a Reciprocity Firm transaction. LG&E believes such expansion charges, where applicable, are reasonable. It would be inequitable, for example, to ask network customers to bear expansion costs, while at the same time providing Reciprocity Firm customers point to point service for free.

LG&E's discussions with the Midwest ISO, the Midwest ISO has not objected to continuing the de-pancaked rate protocol. As with the current pricing protocols in the Midwest ISO and PJM, LG&E will charge customers for transactions that sink in the LG&E's system or are transmitted wholly "within" LG&E's system.

Under the RDMP, rate pancaking will be eliminated to the same extent and over the same territory as is the case today, with one exception. LG&E propose to charge their applicable PTP rate for transactions that: (i) source within or outside of the Super Region;² (ii) sink outside of the Super Region; and (iii) require (x) a withdrawal point scheduled at an interconnection between LG&E and a non-Super Region system (*e.g.*, sink TVA, or sink Duke) or (y) require transmission service through LG&E's control area. LG&E's charging of a PTP rate for these transactions is reasonable because, if LG&E were to remain in Midwest ISO, the Midwest ISO "through and out" rate would be charged for such transactions. LG&E believes that if their PTP rate is not charged for such transactions, the elimination of an "out" charge at LG&E's buses with interconnected utilities (*e.g.*, TVA, Duke) could significantly increase the possibility of gaming.³

² "Super Region" is defined as the Midwest ISO/PJM footprint.

³ Alternatively, if the Commission does not believe that such charges are appropriate, LG&E would be willing to charge the Midwest ISO out rate at its bus with non-Super Region control areas as long as LG&E receive their appropriate share of revenues from such service.

Source	Sink	Customer Pays	Base Transmission Rate Pancaking Today	Base Transmission Rate Pancaking Under RDMP
LG&E/KU	Midwest ISO/PJM	Midwest ISO/PJM applicable zonal transmission rate (at point-of-delivery)	No	No
Midwest ISO/PJM	LG&E/KU	LG&E/KU zonal rate	No	No
LG&E/KU	Control Area other than Midwest ISO or PJM (where no service involving Midwest ISO/PJM is required and withdrawal point is LG&E/KU-non-Super Region bus)	LG&E/KU zonal rate + applicable sink control area rate	Midwest ISO “out rate” applies + applicable non- Super Region sink control area rate	LG&E/KU zonal rate applies + applicable sink control area rate (LG&E/KU zonal rate “replaces” Midwest ISO “out” rate)
Control Area other than Midwest ISO or PJM (e.g., TVA)	LG&E/KU (where no service involving Midwest ISO/PJM is required, and injection point is LG&E/KU-non-Super Region bus)	Applicable control area rate + LG&E/KU zonal rate	Yes	Yes
LG&E/KU	Control Area other than Midwest ISO or PJM (where withdrawal point is Midwest ISO/PJM bus with non-Super Region control area that is not interconnected to LG&E, e.g., IMO)	Applicable non-Super Region control area sink rate + Midwest ISO “Through and Out” rate	No. Midwest ISO “through and out rate” applies	No. Midwest ISO “through and out rate” applies
Control Area other than Midwest ISO or PJM (e.g., IMO)	LG&E/KU (where service through Midwest ISO/PJM is required)	Applicable non-Super Region control area rates + LG&E/KU zonal rate	Yes	Yes

Control Area other than Midwest ISO or PJM (e.g., IMO)	Control Area other than Midwest ISO or PJM (where service through Midwest ISO/PJM is required and withdrawal point is LG&E/KU-non-Super Region bus)	Applicable non-Super Region control area rates + Midwest ISO “Through and Out” rate + LG&E/KU PTP rate	Midwest ISO “through and out rate” applies	Midwest ISO “through and out rate” and LG&E/KU zonal rate applies (to avoid gaming)
Midwest ISO/PJM	Control Area other than Midwest ISO or PJM requiring service through LG&E/KU (i.e., where non-LG&E/KU path is unavailable)	Applicable MISO/PJM Through and Out Rate	No	No
Midwest ISO/PJM	Control Area other than Midwest ISO or PJM that does not require service through LG&E/KU (i.e., where non-LG&E/KU path is available) but LG&E/KU path is still used	Applicable MISO/PJM Through and Out Rate + LG&E/KU PTP Rate	No	Yes, Customer has optional path where pancaking is not required. (prevents gaming)
Control Area other than Midwest ISO or PJM requiring service through LG&E/KU (i.e., where non-LG&E/KU path is unavailable)	Midwest ISO/PJM	Midwest ISO/PJM applicable zonal PTP base transmission rate (at point-of-delivery)	No	No
Control Area other than Midwest ISO or PJM that does not require service through LG&E/KU (i.e., where non-LG&E/KU path is available) but LG&E/KU path is still used	Midwest ISO	Midwest ISO/PJM applicable zonal PTP base transmission rate (at point-of-delivery) + LG&E/KU PTP Rate	No	Yes, Customer has optional path where pancaking is not required. (prevents gaming)

ATTACHMENT C

ALTERNATIVE ADMINISTRATIVE COST ADDER

[To be provided]

ATTACHMENT D
TRANSITION PLAN

Pursuant to Section 3.8 of the Agreement, the following sets forth the Transition Plan that will allow LG&E to acquire operational control of the Transmission System by the Withdrawal Date.

Actions to be completed sixty (60) days prior to Withdrawal Date (for effectiveness upon the Withdrawal Date, where applicable).

1. The Midwest ISO shall determine which LG&E facilities need to be removed from the Midwest ISO's Available Flowgate Capacity ("AFC") calculation.
2. The Midwest ISO and LG&E shall provide mutual assurances that all existing LG&E Network Service Agreements are appropriately transferred to LG&E (or its Independent Transmission Operator ("ITO")).
3. LG&E shall provide to the Midwest ISO a statement of intention regarding its status in the Midwest ISO market post-withdrawal, *i.e.*, with regard to LG&E's status as a "market participant," "balancing authority," and/or Transmission Provider.
4. The Midwest ISO shall eliminate LG&E from its financial transmission rights ("FTR") market and FTR model, except to the extent that other out-of-region assets and loads are reflected in such models.
5. The Midwest ISO shall model LG&E and all generator or load assets pertaining to LG&E in the Midwest ISO market model as a non-member system, and shall retain all associated bid and offer information as confidential information in the Midwest ISO database as, and for the duration, required by Commission regulations.

Actions to be completed forty-five (45) days prior to Withdrawal Date

1. The Midwest ISO and LG&E shall determine the impact on the Midwest ISO's and LG&E's rates and revenue distribution after the Withdrawal Date.
2. Notice of LG&E's withdrawal from the Midwest ISO shall be posted on the Midwest ISO's OASIS.

Actions to be completed thirty (30) days prior to Withdrawal Date

1. The Midwest ISO shall recalculate the Transfer Participation Factor ("TPF") matrix to reflect the withdrawal of LG&E as a Transmission Owner.

Actions to be completed fourteen (14) days prior to Withdrawal Date

1. LG&E's Reliability Coordinator and ITO will acknowledge readiness to assume responsibility for operation of the LG&E system.
2. LG&E shall confirm that its Reliability Coordinator and ITO are capable of calculating and honoring NNL and ATC for coordinated flowgates and reciprocal coordinated flowgates as required by the Congestion Management Process of the Joint Reliability Coordination Agreement among TVA, PJM and Midwest ISO.
3. LG&E's Reliability Coordinator and ITO will operate LG&E's system in parallel with the Midwest ISO.
4. The Midwest ISO shall transfer to LG&E's Reliability Coordinator and ITO all outage related information regarding the LG&E system extending beyond the Withdrawal Date.

Actions to be completed three (3) hours prior to Withdrawal Date

1. LG&E shall engage in self scheduling of all of its generation to meet its load. LG&E shall maintain information transparency regarding its generation dispatch for the Midwest ISO.

Actions to be completed by Withdrawal Date

1. The Midwest ISO shall remove all generator interconnection requests for units to be located on the LG&E system from the Midwest ISO queue, and shall transfer all relevant information to LG&E and the ITO.
2. The Midwest ISO shall transfer all transmission service requests related to grandfathered agreements to LG&E's ITO.
3. The Midwest ISO shall have made the appropriate FERC filings to revise all (a) electronic information; (b) agreements; (c) the OATT; and (d) corporate documents to reflect the withdrawal of LG&E.
4. The Midwest ISO shall revise all (a) electronic information (including information on the Midwest ISO's OASIS site); (b) agreements; (c) the OATT; and (d) corporate documents to reflect the withdrawal of LG&E.
5. The Midwest ISO shall terminate LG&E's Transmission Owner access from the appropriate electronic (and other) forums.
6. LG&E shall ensure that the NERC registry and book of flowgates is updated to reflect its new Reliability Coordinator and ITO.

7. LG&E will begin posting data related to settlements to the Midwest ISO's Physical Scheduling System ("PSS") as a non-Transmission Owner first-tier utility.

8. The Midwest ISO shall reflect LG&E's change from a Transmission Owner to a first-tier utility within the settlement system.

Actions to be completed thirty (30) days after Withdrawal Date

1. The Midwest ISO shall obtain all MISO-required LG&E Inter-Control Center Protocol ("ICCP") information from LG&E's Reliability Coordinator.

2. The Midwest ISO will continue to have access to LG&E's ICCP information directly from LG&E's data links until such time as the Midwest ISO and LG&E's Reliability Coordinator determine that there is no necessity to maintain the ICCP links. At such time, the Midwest ISO will remove all ICCP data links to LG&E.

SCHEDULE 3.5

CONSTRUCTION OF FACILITIES

MTEP 2005 new facilities:

Interconnection Agreement new facilities or facility upgrades:

Conditional Firm Service Transmission new facilities or facility upgrades:

For TSR 75052130

Loop the existing Ghent (LG&E)-Speed (Cinergy) 345kV line thru the Trimble County substation. (covered in the generation interconnection study)

Construct a 345kV line from Mill Creek to Hardin County.

Construct a 138kV line from West Lexington to Higby Mill.

Construct a 138kV line from West Frankfort to Tyrone.

Re-conductor the 138kV line from Ghent to Owen County Tap

Re-conductor the 138kV line from Hardin County to Etown.

Open the 69kV tie from Shelby County (EKPC) to Shelby County Tap (LG&E)

All prior to Trimble 2 going in service.