

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE ELECTRIC )  
RATES, TERMS, AND CONDITIONS OF ) CASE NO. 2003-00434  
KENTUCKY UTILITIES COMPANY )

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O R D E R

Kentucky Utilities Company (“KU”), a wholly owned subsidiary of LG&E Energy LLC (“LG&E Energy”),<sup>1</sup> is an electric utility that generates, transmits, distributes, and sells electricity to approximately 478,000 consumers in all or portions of 77 counties in Kentucky.<sup>2</sup>

BACKGROUND

On November 24, 2003, KU filed a letter giving notice of its intent to file an application for approval of an increase in its electric rates to produce additional annual revenues of \$58,254,344, an increase of 8.54 percent. On December 29, 2003, KU filed its application which included new rates to be effective January 31, 2004 and proposals to revise, add, and delete several tariffs applicable to its electric service. To determine the reasonableness of the request, the Commission suspended the proposed

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<sup>1</sup> LG&E Energy is a Kentucky limited liability company and is an indirect subsidiary of E.ON AG, a German multi-national energy corporation.

<sup>2</sup> Operating under the name of Old Dominion Power Company, KU generates, transmits, distributes, and sells electricity to approximately 29,600 consumers in 5 counties in southwestern Virginia. KU also sells wholesale electric energy to 12 municipalities.

rates for 5 months from their effective date, pursuant to KRS 278.190(2), up to and including June 30, 2004.

KU's last increase in rates was authorized in March 1983 in Case No. 8624.<sup>3</sup> KU was required to reduce its rates as part of a rate complaint, Case No. 1998-00474,<sup>4</sup> in January 2000.

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"); the Division of Energy ("KDOE") of the Environmental and Public Protection Cabinet; the Lexington-Fayette Urban County Government ("LFUCG"); the Kentucky Industrial Utility Customers, Inc. ("KIUC"); North American Stainless, L. P. ("NAS"); The Kroger Company ("Kroger"); the Kentucky Association for Community Action, Inc. ("KACA"); and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC").

On January 14, 2004, the Commission issued a procedural schedule to investigate KU's rate application. The schedule provided for discovery, intervenor testimony, rebuttal testimony by KU, a public hearing, and an opportunity for the parties to file post-hearing briefs. On March 23, 2004, the AG, KDOE, KIUC, NAS, Kroger, KACA, and CAC filed their testimony. Also on March 23, 2004, the Commission granted KU's motion to consolidate into this case that portion of Case No. 2003-00396,

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<sup>3</sup> Case No. 8624, General Adjustment of Electric Rates of Kentucky Utilities Company.

<sup>4</sup> Case No. 1998-00474, The Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

relating to a new KU tariff for Non-Conforming Load (“NCL”) customers.<sup>5</sup> On March 31, 2004, the Commission granted a joint motion by KU, the AG, the LFUCG, and KIUC to consolidate Case No. 2003-00335, an investigation of the Earnings Sharing Mechanism (“ESM”) for KU, into this proceeding.<sup>6</sup> KU filed its rebuttal testimony on April 26, 2004.

On April 28, 2004, an informal conference was held with all parties to discuss procedural matters and the possible resolution of pending issues. Additional conferences were held on April 29, 2004 and May 3, 2004. The public hearing was convened on May 4, 2004,<sup>7</sup> at which time the parties indicated that significant progress had been made toward resolving many of the issues and they requested the hearing be delayed to allow additional discussions.<sup>8</sup> This request was granted and, on May 5, 2004, the parties announced a tentative agreement on two documents that resolved many of the issues. One document, titled “Settlement Agreement” (“ESM Settlement”), provided for the orderly discontinuance of the ESM. The other document, titled “Partial Settlement Agreement, Stipulation and Recommendation” (“Partial Settlement and Stipulation”), addressed all the remaining issues, including the NCL tariff, and resolved many but not all of the issues raised in KU’s rate case.

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<sup>5</sup> Case No. 2003-00396, Tariff Filing of Kentucky Utilities Company and Louisville Gas and Electric Company for Non-Conforming Load Customers.

<sup>6</sup> Case No. 2003-00334, An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Kentucky Utilities Company.

<sup>7</sup> For administrative efficiency, the public hearing for this case was held simultaneously with the hearing for the rate case filed by the Louisville Gas and Electric Company (“LG&E”). See Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company.

<sup>8</sup> Transcript of Evidence (“T.E.”), Volume I, May 4, 2004, at 36-39 and 57-60.

Because the Partial Settlement and Stipulation did not resolve the issue of the appropriate revenue increase and depreciation rates for KU's electric operations, the hearing proceeded in the afternoon of May 5, 2004 with testimony being presented by KU and the AG. The hearing on those issues concluded on May 6, 2004. The parties subsequently finalized the ESM Settlement and the Partial Settlement and Stipulation and, on May 12, 2004, they filed the final versions of both documents.<sup>9</sup> During that hearing, the KDOE, KIUC, NAS, Kroger, KACA, and CAC withdrew their respective prefiled testimonies and responses to data requests on those testimonies. A hearing was then held on that date to receive testimony on the reasonableness of both documents.

On June 4, 2004, KU and the AG timely filed briefs in accordance with the procedural schedule. All information requested at the public hearing has been filed and the case now stands submitted for a decision.

#### ESM SETTLEMENT

KU previously submitted its calendar year 2003 ESM filing pursuant to its ESM tariff and it was docketed as Case No. 2004-00070.<sup>10</sup> In that filing, KU calculated its

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<sup>9</sup> The ESM Settlement is attached hereto as Appendix A and the Partial Settlement and Stipulation is attached hereto as Appendix B. Both documents are incorporated into this Order as if fully set forth herein.

<sup>10</sup> Case No. 2004-00070, Kentucky Utilities Company's Annual Earnings Sharing Mechanism Filing for Calendar Year 2003.

2003 ESM billing factor to be 2.367 percent for April 1, 2004 through April 30, 2004, and 2.330 percent for May 1, 2004 through March 31, 2005.<sup>11</sup>

Under the terms of the ESM Settlement, the parties recommend that an Order be issued in Case No. 2004-00070 approving KU's 2003 ESM billing factors as filed and authorizing KU to bill them through March 31, 2005. KU would then collect and retain all this revenue. No later than May 2005, KU is to perform a final balancing adjustment to reconcile any over- or under-collection of the 2003 ESM revenues as billed from April 2004 through March 2005. Effective July 1, 2004, the ESM will be discontinued and KU will waive its rights to make any billings or seek any collections under its ESM tariff for its operations during the first 6 months of 2004.

The Commission has reviewed the ESM Settlement and finds that it constitutes a reasonable resolution of the issues related to the continuation of KU's ESM. When the Commission offered the ESM to KU in 2000, the intent was that this alternative form of regulation would provide sufficient incentives to KU to improve its performance while reducing the business risks inherent in over- and under-earnings. The management

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<sup>11</sup> Under the provisions of its ESM tariff, KU is required to file a determination of a balancing adjustment to the current ESM billing factor, reflecting a true-up for any over- or under-collections experienced with the previous ESM billing factor. The revision in the 2003 ESM billing factor reflects the balancing adjustment for the 2002 ESM billing factor.



audit performed for the Commission concluded,<sup>12</sup> and KU confirmed in its own testimony, that the ESM has not incited KU to operate any differently than it would have without an ESM. In light of these results, the termination of the ESM as currently configured is reasonable. Therefore, the Commission will approve the ESM Settlement in its entirety. An Order confirming this will be issued in Case No. 2004-00070 in the near future.

The Commission notes that the ESM Settlement provides that nothing therein will bar a party from seeking, or the Commission from reinstating, an ESM which is designed to accomplish reasonable and valid regulatory objectives. While the Commission is now approving the termination of the current ESM because it did not achieve its intended purpose, we will take this opportunity to reaffirm our support for alternative rate-making mechanisms. KU is encouraged to continue considering alternative regulation, and, if it decides to propose one in the future, it should do so after seeking input from its customer representatives.

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<sup>12</sup> The Barrington-Wellesley Group, Inc. (“BWG”) performed the ESM management audit and issued its final report on August 31, 2003. BWG determined that the ESM was an effective alternative to traditional cost of service regulation, although it did recommend some modifications to the current structure. The BWG report stated “However, it is the LG&E/KU management’s position that the ESM program did not change management behavior. Management contends that LG&E and KU already had a strong continuous improvement program and that the ESM reinforced this behavior and added a regulatory mechanism for dealing with the ebb and flow of earnings over time.” BWG Report at IV-1.

## PARTIAL SETTLEMENT AND STIPULATION

### Unanimous Provisions

The Partial Settlement and Stipulation reflects a unanimous resolution of a substantial number of the issues raised, including the revenue allocations, the rate design, and KU's proposed changes in its terms and conditions of service. The major provisions of the Partial Settlement and Stipulation for KU that have been unanimously agreed to are as follows:

- KU will establish a pilot time-of-day program for no more than 100 commercial customers with a monthly demand between 250 kW and 2,000 kW.<sup>13</sup>
- Future Commission Orders approving cost recovery of KU's environmental projects pursuant to KRS 278.183 will be based upon an 11.00 percent return on common equity until that return is modified by the Commission.
- All costs associated with KU's 1994 environmental compliance plan will be removed from KU's monthly environmental surcharge filings and will be recovered in KU's base rates.
- All miscellaneous charges applicable to electric operations should be approved as proposed by KU except that the Disconnect-Reconnect Charge should be \$20.00 and KU's After-Hours Reconnect Charge will be withdrawn.
- The monthly KU residential customer charge should be \$5.00 per month; KU's Rate GS primary should be \$10.00 per month; KU's Rate GS secondary should be \$10.00 per month; and all other customer charges should be implemented as proposed by KU.
- KU Rate GS will be available to electric customers with connected loads up to 500 kW.
- KU's expenditure of \$1 million per year for nitrogen oxide incurred pursuant to its contract with Owensboro Municipal Utilities will be recovered through KU's environmental cost recovery filings pursuant to

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<sup>13</sup> This reflects a stipulation agreement between KU and Kroger dated May 4, 2004 and attached to the Partial Settlement and Stipulation as Exhibit 2.

KRS 278.183. The recovery of these costs will begin in April 2005 based upon the February 2005 expense month for KU.

- KU will offer a Curtailable Service Rider (“CSR1”) to current customers who meet the eligibility requirements set forth in KU’s proposed CSR1, subject to specific terms and conditions.
- New customers not currently served under an existing curtailable service rider will be eligible to take curtailable service under a new curtailable service rider tariff (“CSR2”) as proposed by KU, except such customers will be able to buy through a request for curtailment only after having been on the CSR2 service for 3 years with no failure to curtail when requested.
- The NCL service tariff should be renamed “large industrial-time of day” (“LI-TOD”), and the LI-TOD should be the same as the NCL tariff proposed in Case No. 2003-00396, subject to changes outlined in the Partial Settlement and Stipulation.
- Unless the Commission has already modified or terminated the Value Delivery Team (“VDT”) surcredit in a subsequent rate case, 6 months prior to the expiration of the 60-month period in which the VDT surcredits are in operation, KU will file with the Commission a plan for the future rate-making treatment of the VDT surcredits, shareholder savings, amortization of VDT costs, and all other VDT-related issues. The VDT surcredit tariff will remain in effect following the 60<sup>th</sup> month until the Commission enters an Order on the future rate-making treatment.
- In conjunction with the AG, KACA, and CAC, KU will file with the Commission plans for program administration of a year-round Home Energy Assistance (“HEA”) program based solely upon a 10-cent per residential meter per month charge for a period of 3 years. The HEA programs will be operated by existing social service providers with experience in operating low-income energy assistance programs, and the providers will be entitled to recover actual operating expenses up to 10 percent of total HEA funds collected. KU will be entitled to recover its one-time information technology implementation costs through its Demand-Side Management mechanism. The HEA programs to be filed will commence on October 1, 2004. The Commission’s approval of the Partial Settlement and Stipulation will constitute approval of the HEA parameters as proposed, subject to further review by the Commission of additional programmatic details.

- KU will not seek approval of a prepaid metering program within the next 5 years, and any such program proposed thereafter will be subject to prior Commission approval.

### Non-unanimous Provisions

The Partial Settlement and Stipulation contains additional provisions that relate to issues in the rate case that were agreed to by all parties except the AG. Consequently, the Commission cannot accept these non-unanimous provisions as resolutions of the issues covered. The non-unanimous provisions which were agreed to by KU and all intervenors except the AG are as follows:

- Effective July 1, 2004, KU's revenues should be increased by \$46,100,000.
- The electric rates as set forth in Exhibit 1 to the Partial Settlement and Stipulation are the fair, just, and reasonable rates for KU and those rates should be approved by the Commission for service rendered on and after July 1, 2004.
- KU's depreciation rates should remain the same as approved in the Order of December 3, 2001 in Case No. 2001-00140,<sup>14</sup> until the approval by the Commission of new depreciation rates for KU. KU must seek approval by filings made in its next general rate case or June 30, 2007, whichever occurs earlier. The new depreciation filings are to be based on plant in service as of a date no earlier than 1 year prior to such filing. From and after the effective date hereof, KU will maintain its books and records so that net salvage amounts may be identified.

### ANALYSIS OF THE PARTIAL SETTLEMENT AND STIPULATION

In its application, KU proposed an annual increase in its electric revenues of \$58,254,344. The AG proposed an annual increase in KU's electric revenues of \$2,635,000. In the Partial Settlement and Stipulation, KU and all the intervenors except

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<sup>14</sup> Case No. 2001-00140, Application of Kentucky Utilities Company for an Order Approving Revised Depreciation Rates.

the AG agree that an annual increase in electric revenues of \$46,100,000 is reasonable. Since all parties have not reached a unanimous settlement on KU's electric revenues, the Commission must consider all the record evidence on this issue, including the issue of depreciation rates, and render a decision. This decision will be based on a determination, for KU's electric operations, of its capital, rate base, operating revenues, and operating expenses as would normally be done in a rate case.

The provisions of the Partial Settlement and Stipulation that have been agreed to by all parties cover issues other than the level of KU's rates and its depreciation rates. With respect to these unanimous provisions, the Commission may accept them only after conducting an independent analysis to determine whether they are reasonable and in the public interest. The Commission will make its determination of the reasonableness of these unanimous provisions after it addresses the appropriate rate level for KU.

#### TEST PERIOD

KU proposes the 12-month period ending September 30, 2003 as the test period for determining the reasonableness of its proposed electric rates. The AG also utilized this 12-month period. The Commission finds it is reasonable to utilize the 12-month period ending September 30, 2003 as the test period in this proceeding. In utilizing a historic test period, the Commission has given full consideration to appropriate known and measurable changes.

## RATE BASE

### Jurisdictional Rate Base Ratio

KU's application proposed a test-year-end Kentucky jurisdictional rate base of \$1,549,420,616.<sup>15</sup> The AG did not calculate a test-year-end Kentucky jurisdictional rate base. The test-year-end Kentucky jurisdictional rate base is divided by KU's test-year-end total company rate base to derive a Kentucky jurisdictional rate base ratio ("jurisdictional ratio"). This jurisdictional ratio is then applied to KU's total company capitalization to determine KU's Kentucky jurisdictional capitalization. The jurisdictional ratio uses the test-year-end rate base before recognizing rate-making adjustments applicable to the either Kentucky jurisdictional or other jurisdictional operations.<sup>16</sup> KU and the AG used an allocation ratio of 87.97 percent.<sup>17</sup>

The Commission has reviewed the calculation of the test-year-end jurisdictional rate base and agrees with the calculation, except for the treatment of accumulated deferred income taxes ("ADIT") associated with Statement of Financial Accounting Standards ("SFAS 109") No. 109. The balance for ADIT used in the determination of rate base reflects the account balances for four accounts in the Uniform System of

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<sup>15</sup> Rives Direct Testimony, Rives Exhibit 3.

<sup>16</sup> KU's other jurisdictional operations reflect the Old Dominion Power Company operations in Virginia and the wholesale municipal energy sales subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC").

<sup>17</sup> Rives Direct Testimony, Rives Exhibit 3.

Accounts (“USoA”): Account Nos. 190, 281, 282, and 283.<sup>18</sup> Account No. 190 normally is a debit balance, while the remaining three accounts normally are credit balances. The balances in these accounts are netted together to determine the amount to be included in the rate base calculations. If the net ADIT amount is a net credit balance, it is shown in the rate base calculations as a positive deduction, while a net debit balance is shown as a negative deduction.

When KU calculated its test-year-end rate base, it reported the total net credit balance resulting from Account Nos. 190, 282, and 283 as ADIT.<sup>19</sup> The subaccounts making up the balances for these three accounts included SFAS 109 ADIT subaccounts.<sup>20</sup>

KU then reported the net balance of Account Nos. 182.3 and 254<sup>21</sup> as its SFAS 109 ADIT. The SFAS 109 ADIT amounts from Account Nos. 190, 282, and 283 have a

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<sup>18</sup> Account No. 190, Accumulated Deferred Income Taxes; Account No. 281, Accumulated Deferred Income Taxes – Accelerated Amortization Property; Account No. 282, Accumulated Deferred Income Taxes – Other Property; and Account No. 283, Accumulated Deferred Income Taxes – Other. The Commission notes that KU’s financial statements do not show a balance for Account No. 281.

<sup>19</sup> Consistent with previous Commission decisions, KU also excluded ADIT associated with “below the line” items from the ADIT balance included in the rate base calculation. See Response to the Commission Staff’s Second Data Request dated February 3, 2004, Item 15(f)(1) through 15(f)(5).

<sup>20</sup> Response to the Commission Staff’s First Data Request dated December 19, 2003, Item 13(a)(b), pages 3 and 4 of 9.

<sup>21</sup> Account No. 182.3, Other Regulatory Assets and Account No. 254, Other Regulatory Liabilities. The subaccount balances used in the calculation are identified as SFAS 109 taxes. For Account No. 182.3, KU used the subaccount balances for 182301 through 182304. For Account No. 254, KU used the subaccount balances for 254001 through 254004. See Response to the Commission Staff’s First Data Request dated December 19, 2003, Item 13(a)(b), pages 2 and 4 of 9.

net debit balance, while the SFAS 109 amounts from Account Nos. 182.3 and 254 have a net credit balance. The erroneous inclusion of the balances from Account Nos. 182.3 and 254 has the effect of partially offsetting the SFAS 109 ADIT recorded in Account Nos. 190, 282, and 283. This results in the deductions section of the rate base being overstated and the total rate base being understated. The correct presentation of the ADIT balances is the separation of the SFAS 109 ADIT from the regular ADIT.

The Commission believes the ADIT and SFAS 109 ADIT included in the rate base calculations should reflect only the balances as recorded in Account Nos. 190, 282, and 283. The calculation of KU's test-year-end Kentucky jurisdictional and total company rate bases and the jurisdictional ratio are shown in Appendix D. Therefore, the Commission has determined that KU's jurisdictional ratio is 87.14 percent.

#### Pro Forma Jurisdictional Rate Base

KU calculated a pro forma Kentucky jurisdictional rate base of \$1,396,102,637.<sup>22</sup> The AG did not calculate a pro forma rate base, but proposed that KU's total company rate base be reduced by \$7,089,556.<sup>23</sup> KU's calculations reflected the approach utilized by the Commission in previous rate cases to determine the pro forma rate base, but did not recognize certain adjustments normally included therein.

While KU removed the utility plant, construction work in progress, and accumulated depreciation associated with its Post-1994 environmental compliance plan ("Post-1994 Plan"), it should have removed the ADIT associated with the Post-1994

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<sup>22</sup> Response to the Commission Staff's Third Data Request dated March 1, 2004, Item 38.

<sup>23</sup> Majoros Direct Testimony at 6-7.



Plan. Excluding the Post-1994 Plan ADIT is consistent with the Commission's treatment of this item in Case No. 1998-00474.<sup>24</sup> KU should have included in its balance for accumulated depreciation its proposed increase in depreciation expense, an adjustment the Commission has consistently recognized.<sup>25</sup> Finally, KU should have determined its cash working capital allowance for total company purposes utilizing the 1/8<sup>th</sup> formula approach.<sup>26</sup>

The Commission has determined KU's pro forma Kentucky jurisdictional rate base for rate-making purposes by beginning with the test-year-end Kentucky jurisdictional rate base utilized to determine the jurisdictional ratio, and then incorporating the adjustments discussed previously in this Order. The adjustment to accumulated depreciation reflects the increase in test-year depreciation expense discussed later in this Order. The cash working capital allowance has been adjusted to reflect the accepted pro forma adjustments to operation and maintenance expenses as discussed later in this Order.<sup>27</sup>

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<sup>24</sup> Case No. 1998-00474, final Order dated January 7, 2000, at 56-58 and Appendix B, and rehearing Order dated June 1, 2000, at 2-4.

<sup>25</sup> See Case No. 2000-00080, The Application of Louisville Gas and Electric Company to Adjust Its Gas Rates and to Increase Its Charges for disconnecting Service, Reconnecting Service and Returned Checks, final Order dated September 27, 2000, at 18-20.

<sup>26</sup> Response to the Commission Staff's Second Data Request dated February 3, 2004, Item 15(f)(6).

<sup>27</sup> The adjustments made to determine the pro forma electric rate base are listed in Appendix D.

Based upon the previous findings, we have determined KU's pro forma Kentucky jurisdictional rate base for rate-making purposes as of September 30, 2003 to be as follows:

|  |                            |
|--|----------------------------|
| Total Utility Plant in Service             | \$2,898,076,555            |
| Add:                                       |                            |
| Materials & Supplies                       | 57,926,039                 |
| Prepayments                                | 2,935,464                  |
| Emission Allowances                        | 59,742                     |
| Cash Working Capital Allowance             | <u>49,853,452</u>          |
| Subtotal                                   | \$ 110,774,697             |
| Deduct:                                    |                            |
| Accumulated Depreciation                   | 1,374,772,984              |
| Customer Advances                          | 1,455,980                  |
| Accumulated Deferred Income Taxes          | 244,469,347                |
| SFAS 109 Accumulated Deferred Income Taxes | (17,891,956)               |
| Investment Tax Credit (prior law)          | <u>5,453,260</u>           |
| Subtotal                                   | \$1,608,259,615            |
| <br>Pro Forma Electric Rate Base           | <br><u>\$1,400,591,637</u> |

#### Reproduction Cost Rate Base

KU presented a total company reproduction cost rate base of \$3,160,720,995, and a Kentucky jurisdictional reproduction cost rate base of \$2,752,873,919.<sup>28</sup> The costs were determined principally by indexing the surviving plant and equity using the Handy-Whitman Index of Public Utility Construction Costs and the Consumer Price Index.<sup>29</sup> The Commission has given consideration to the proposed reproduction cost rate base, but finds that using KU's historic cost for rate base is appropriate and consistent with precedents for KU and other utilities in Kentucky.

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<sup>28</sup> Rives Direct Testimony, Rives Exhibit 4.

<sup>29</sup> Rives Direct Testimony at 24.

## CAPITALIZATION

KU proposed an adjusted Kentucky jurisdictional capitalization of \$1,318,124,983.<sup>30</sup> Included in its capitalization were adjustments for the removal of undistributed subsidiary earnings, the investment in Electric Energy, Inc., the removal of other investments, the removal of reimbursed capital invested to repair the combustion turbines at the E. W. Brown Generating Station, the retirement of the Green River Units 1 and 2, the removal of KU's Post-1994 environmental compliance plan investments, and to reverse KU's minimum pension liability adjustment to Other Comprehensive Income. KU allocated the removal of undistributed subsidiary earnings and the minimum pension liability adjustments to common equity only, while it allocated all the other proposed adjustments on a pro rata basis to all components of capitalization.

The AG proposed an adjusted Kentucky jurisdictional capitalization of \$1,307,662,608.<sup>31</sup> The AG agreed with all of KU's adjustments to capitalization except the adjustment for the minimum pension liability. Both KU and the AG determined the Kentucky jurisdictional capitalization by multiplying KU's total company capitalization by the jurisdictional ratio described above. This is consistent with the approach used by the Commission in previous KU rate cases.

### Minimum Pension Liability

KU adopted SFAS No. 130, *Reporting Comprehensive Income*, on January 1, 1998. SFAS No. 130 requires a company to report a measure of all changes in equity, not just resulting from transactions and economic events currently reflected in the

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<sup>30</sup> Rives Direct Testimony, Rives Exhibit 2.

<sup>31</sup> Majoros Revenue Requirements Direct Testimony, Exhibit MJM-3.

determination of net income. The changes that are not currently reflected in net income are called Other Comprehensive Income items. Other Comprehensive Income items include foreign currency translation changes, unrealized holding gains and losses on available-for-sale securities, mark-to-mark gains and losses on cash flow hedges, and minimum pension liability. For each of these items, the liability is fully recognized on the balance sheet but not yet on the income statement, because the financial impact that unrealized changes in value may eventually cause have not occurred and have not been included in the income statement under generally accepted accounting principles.<sup>32</sup> A minimum pension liability occurs when, as of a measurement date,<sup>33</sup> the discounted benefits previously earned by participants in the pension plan exceed the market value of the pension trust assets, thus representing an unfunded pension benefit earned by plan participants to date.

For calendar year 2002, due to the below-average performance of the stock market and low interest rates, KU determined it had a total company minimum pension liability of \$10,462,375.<sup>34</sup> KU recorded the \$10,462,375 as a component of its Other Comprehensive Income and reduced its equity accordingly. KU argued that it would be an unfair regulatory policy to reduce common equity today for a loss not yet recorded on the income statement, and a loss that may or may not actually be incurred.<sup>35</sup> In its

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<sup>32</sup> Response to the Commission Staff's Second Data Request dated February 3, 2004, Item 15(c)(3), page 8 of 16.

<sup>33</sup> The measurement date is normally the last day of a calendar year.

<sup>34</sup> Rives Direct Testimony, Rives Exhibit 2.

<sup>35</sup> Rives Direct Testimony at 21.

application, KU requested that it be permitted to reverse the entry for the minimum pension liability and record a regulatory asset to effect the reversal. The minimum pension liability is recalculated every year and, consequently, the regulatory asset would be revised and adjusted annually. Because of this feature, KU contended that the regulatory asset would not have to be amortized.

The AG opposed the proposed adjustment citing three reasons. First, the AG contended that the equity adjustment had actually been made and was an actual known and measurable adjustment to capitalization. Because of this fact, the AG believed that reversing the write-down was not consistent with previous Commission decisions. Second, the AG did not believe the creation of the regulatory asset as proposed by KU was consistent with or allowed by SFAS No. 71. The AG believes that regulatory assets established under SFAS No. 71 are recovered through amortization of the asset to the income statement, while the proposed regulatory asset for the minimum pension liability would be extinguished through balance sheet accounting. Lastly, the AG expressed concern that the establishment of the regulatory asset for the minimum pension liability would result in a presumption that the underlying costs are recoverable from ratepayers in the future and any prudence review of those costs in the future would be precluded.<sup>36</sup>

KU disagreed with the AG's arguments, noting that the write-down is not a permanent adjustment to its equity balance since the minimum pension liability will change with each measurement date. KU argued that the AG's reliance on the Commission's decision in Case No. 1998-00474 had no bearing on how the reversal of the write-down for the minimum pension liability should be treated. As to establishing a

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<sup>36</sup> Majoros Revenue Requirements Direct Testimony at 4-6.

regulatory asset under SFAS No. 71, KU stated that FERC has issued an accounting decision permitting the establishment of the minimum pension liability regulatory asset for utilities with cost based regulated rates.<sup>37</sup> KU dismissed the AG's concern that the creation of the regulatory asset would preclude a prudence review of pension costs in the future, noting that KU had not asserted such a claim and that the AG's witness had agreed that the FERC decision letter had eliminated the prudence concern.<sup>38</sup>

The Commission has not previously addressed this issue. The accounting treatment for the minimum pension liability is in effect a means of disclosing a contingency, since there is no corresponding change in the company's current pension expense recognized in the income statement. The minimum pension liability required by SFAS No. 130 and the proposed regulatory asset are unique, in that the balance is determined periodically and the recorded liability and proposed asset are adjusted accordingly. In the event the market value of the pension trust assets exceed the discounted benefits previously earned by participants in the pension plan, there would be no minimum pension liability and no corresponding adjustment to the company's equity.

The Commission finds KU's adjustments to be reasonable. The write-down of KU's equity due to the minimum pension liability is not a permanent event, with the

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<sup>37</sup> Rives Rebuttal Testimony at 8. In a request dated October 31, 2003, the Edison Electric Institute filed a request with FERC seeking an accounting ruling supporting the creation of a regulatory asset for those utilities required to recognize a minimum pension liability as part of the determination of Other Comprehensive Income. On March 29, 2004, FERC's Deputy Executive Director and Chief Accountant issued a decision in FERC Docket No. AI04-2-000 allowing for the creation of the regulatory asset for accounting purposes. See Rives Rebuttal Testimony, SBR Rebuttal Exhibit 1.

<sup>38</sup> Joint Post-Hearing Brief of LG&E and KU at 27.

adjustment recalculated at the measurement date of the pension plan. Consequently, this adjustment to equity is not the same as the adjustment cited by the AG from Case No. 1998-00474. The accounting decision issued by FERC addresses the AG's concerns regarding the legitimacy of creating the regulatory asset, and that the regulatory asset will not be amortized and recognized as a current operating expense.<sup>39</sup> Lastly, the Commission stresses that establishing this regulatory asset creates no presumption that the underlying pension costs are either reasonable or recoverable from ratepayers in the future.

Based upon these findings, KU's proposal is accepted and the equity in its total company capitalization is increased by \$10,462,375.

#### SFAS No. 143 – Asset Retirement Obligation (“ARO”) Adjustment

KU adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, on January 1, 2003. Under SFAS No. 143, if a utility determines it has a legally enforceable ARO, the utility must measure and record the liability for the ARO on its books. The liability must be recorded at fair market value in the period that the liability is incurred. A corresponding and equivalent ARO asset is also recorded on the utility's books to recognize the cost of removal as an integral part of the cost of the associated tangible asset. Utilities are also required to recognize the cumulative effect impact on their financial statements resulting from the adoption of SFAS No. 143. The cumulative effect impact represents the ARO asset depreciation and ARO liability accretion that would have been recorded had the asset and liability been recorded when the original

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<sup>39</sup> The Commission notes that the FERC accounting decision was issued after the AG had filed his direct testimony in this case.

asset was placed into service. On April 9, 2003, FERC issued Order No. 631,<sup>40</sup> which generally adopted the requirements of SFAS No. 143.

In Case No. 2003-00427,<sup>41</sup> KU sought approval of an accounting adjustment to its ESM for calendar year 2003 to reflect its adoption of SFAS No. 143 in 2003. KU and KIUC, the only intervenor in that case, filed a stipulation that resolved all issues raised therein. Among other things, the stipulation provided that, "The ARO assets, related ARO asset accumulated depreciation, ARO liabilities, and remaining regulatory assets associated with the adoption of SFAS No. 143 will be excluded from rate base."<sup>42</sup>

Now, KU has proposed to remove the cumulative effect of the accounting change resulting from the adoption of SFAS No. 143<sup>43</sup> and to remove the ARO assets from the determination of its pro forma rate base.<sup>44</sup> However, KU did not propose any adjustment to its Kentucky jurisdictional capitalization corresponding with the rate base adjustment for the ARO asset. In order to be consistent with KU's efforts to remove the impact of the adoption of SFAS No. 143, it is necessary to exclude the ARO assets from KU's Kentucky jurisdictional capitalization. Such an adjustment is also consistent with

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<sup>40</sup> FERC Order No. 631 is the final rule in *Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations*, Docket No. RM02-7-000.

<sup>41</sup> Case No. 2003-00427, Application of Kentucky Utilities Company for an Order Approving an Accounting Adjustment to be Included in Earnings Sharing Mechanism Calculations for 2003.

<sup>42</sup> Case No. 2003-00427, final Order dated December 23, 2003 at 3.

<sup>43</sup> Rives Direct Testimony, Rives Exhibit 1, Schedule 1.25.

<sup>44</sup> Response to the Commission Staff's Third Data Request dated March 1, 2004, Item 38, page 1 of 2, line 6. The adjustment to the pro forma Kentucky jurisdictional rate base was \$7,408,501.



previous decisions by the Commission when items are removed from the calculation of rate base. Therefore, the Commission has reduced KU's Kentucky jurisdictional capitalization, on a pro rata basis, by \$7,408,501.

Based on the findings herein, the Commission has determined that KU's test-year-end Kentucky jurisdictional capitalization should be \$1,297,055,596. The calculation of the jurisdictional capitalization is shown in Appendix E.

### REVENUES AND EXPENSES

For the test year, KU reported actual net operating income from Kentucky jurisdictional operations of \$86,167,531.<sup>45</sup> KU proposed a series of adjustments to revenues and expenses to reflect more current and anticipated operating conditions, resulting in an adjusted net operating income from Kentucky jurisdictional operations of \$60,956,866.<sup>46</sup> The AG also proposed numerous revenue and expense adjustments, resulting in net operating income from Kentucky jurisdictional operations of \$84,669,000.<sup>47</sup> The Commission finds that 21 of the adjustments, proposed in KU's application and accepted by the AG, are reasonable and will be accepted. During the proceeding, KU identified and corrected errors in several other adjustments originally proposed in its application. The Commission finds that three of these other adjustments, as corrected by KU and accepted by the AG, are reasonable and they will also be accepted. All of these 24 adjustments are set forth in detail in Appendix F, which is attached hereto.

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<sup>45</sup> Rives Direct Testimony, Rives Exhibit 1, page 1 of 3, line 1.

<sup>46</sup> Id., page 3 of 3, line 42.

<sup>47</sup> Majoros Accounting Direct Testimony, Exhibit MJM-2.

The Commission makes the following modifications to the remaining proposed adjustments:

Year-End Customer Adjustment

KU proposed to annualize its test-year revenues based on the number of customers served at test-year-end. Its adjustment was based on a comparison of the number of customers at year end to the 12-month average for the test year for each customer class. It proposed a corresponding electric expense adjustment, based on an operating ratio of 60.28 percent of the revenue adjustment, to reflect the related increase in variable operating expenses. KU's proposed adjustment increased revenues by \$251,167 and expenses by \$151,410.

Although the Commission strives for consistency on these issues, we recognize that we have accepted different methodologies to calculate customer growth adjustments in prior rate cases.<sup>48</sup> In some of those cases, adjustments were accepted based on a 12-month average, as KU has proposed here, and in other cases adjustments were accepted based on a 13-month average. The accepted adjustments may have been based on proposals by the utilities or the intervenors, or derived by the Commission from the record.

This record here includes KU's original calculation based on a 12-month average, as well as a revision based on a 13-month average provided in response to

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<sup>48</sup> See Case No. 1990-00158, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company, final Order dated December 21, 1990 at 40; Case No. 1998-00455, Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates, final Order dated July 8, 1999, at 4; and Case No. 2000-00373, The Application of Jackson Energy Cooperative Corporation for an Adjustment of Rates, final Order dated May 21, 2001, at 11-12.

discovery.<sup>49</sup> The Commission finds that using a 13-month average to calculate the customer growth adjustment is more appropriate than the 12-month average proposed by KU. A 13-month average, which includes the last month immediately prior to the first month of a test year, better recognizes the number, or balance, of an item as of the beginning of the test year. This approach is used to derive average balances in other areas, such as materials and supplies, prepayments, and fuel inventories.

For these reasons, the Commission will accept the adjustment based on a 13-month average, as filed in KU's data response. The result is an increase in electric revenues of \$556,927 and an increase in operating expenses of \$335,731. These amounts will be recognized in determining KU's revenue requirements.

#### Depreciation Expense

KU proposed to increase its jurisdictional depreciation expense \$2,091,278 over its test-year actual level. This increase was based on its plant balances as of September 30, 2003, and the application of new depreciation rates as proposed in this proceeding. KU's new depreciation study was based on utility plant in service as of December 31, 2002 and was developed utilizing the Straight Line Method, the Broad Group Procedure, and the Average Remaining Life Technique.<sup>50</sup> KU's current depreciation rates were approved in Case No. 2001-00140 based on a settlement, and the depreciation study filed in that case was based on plant in service as of December 31, 1999.

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<sup>49</sup> Response to the Commission Staff's Third Data Request dated March 1, 2004, Item 25.

<sup>50</sup> Robinson Direct Testimony at 1 and 6.

The AG opposed KU's proposed increase, citing several problems with the new depreciation rates as well as some of the net salvage values included in those rates. The AG argued that the net salvage incorporated into KU's proposed depreciation rates was not reflective of the actual net salvage experienced by KU, included future inflation in the estimates of future net salvage expense, and included retirement costs that KU likely would never incur and had no legal obligation to incur.<sup>51</sup> The AG contended that KU's depreciation proposal is not consistent with FERC Order No. 631, which requires separate accounting for the cost of removal collected.<sup>52</sup> Lastly, the AG stated that the service lives used for several transmission and distribution plant accounts were incorrect.<sup>53</sup>

The AG recalculated the proposed depreciation rates by correcting the incorrect service lives and excluding the net salvage component. In lieu of retaining the net salvage component in depreciation rates, the AG proposed an annual net salvage allowance of zero for KU, since it had been experiencing positive net salvage during its actual 5-year average experience. The AG contended that the net salvage allowance is consistent with the requirements of FERC Order No. 631. Based on his recalculation, the AG proposed to reduce KU's test-year depreciation expense by \$23,126,000.<sup>54</sup> The AG also suggested that \$235,100,000 in overstated depreciation reserve should be

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<sup>51</sup> AG's Post-Hearing Brief at 7-12.

<sup>52</sup> Majoros Depreciation Direct Testimony at 28-29 of 51.

<sup>53</sup> Id. at 46-48 of 51.

<sup>54</sup> Majoros Accounting Direct Testimony, Exhibit MJM-7.

returned to ratepayers over a 10-year period;<sup>55</sup> but he did not include this amount in his proposed depreciation adjustment.

KU disagreed with the AG's criticisms of the proposed depreciation rates. Concerning the treatment of net salvage, KU argued that the AG's approach would have the effect of deferring removal costs to the end of the life of the asset. This deferral would result in intergenerational inequities because the customers who use the asset today are not paying the cost of removal today. Rather, those who are customers at the end of the asset life would have to pay the cost of removal.<sup>56</sup> Concerning the AG's claim that separating the net salvage component from depreciation rates is required by FERC Order No. 631, KU noted that this claim is not supported by the language in the FERC Order.<sup>57</sup> KU also stated that the AG's proposed net salvage allowance was rarely accepted by regulatory agencies and that the AG's citations to previous Commission decisions in electric cooperative cases did not disclose the entire decision.<sup>58</sup> Lastly, KU stated that the AG's selection of the longest available service lives for certain transmission and distribution assets reflected a "results-oriented" approach to determining depreciation rates.<sup>59</sup>

Based on a comprehensive review of both depreciation studies, the Commission has concerns about each of them. For KU's study, the Commission has concerns about

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<sup>55</sup> AG's Post-Hearing Brief at 15.

<sup>56</sup> Joint Post-Hearing Brief of LG&E and KU at 43.

<sup>57</sup> Id. at 47.

<sup>58</sup> Id. at 43.

<sup>59</sup> Id. at 47-48.

the inclusion of an inflation adjustment for the removal costs. Depreciation methods inherently recognize inflationary effects, since the depreciation rates are based upon comparisons of the original cost of the asset to the current cost of removal. This recognition assumes that future inflation rates will be similar to historical inflation rates. If it can be adequately demonstrated that future inflation rates will be different from the historical inflation rates, an inflation adjustment would be reasonable. However, to properly reflect this change in inflation rates, the effects of inflation currently incorporated in the accumulated depreciation would need to be removed. In response to a data request, KU provided a revision of its proposed depreciation rates that did not include adjustments based upon future estimates of inflation or other judgmental factors.<sup>60</sup> After reviewing these rates, the Commission believes there are still problems related to the inflation adjustment that was contained in KU's initial depreciation study. Therefore, the Commission finds that KU's depreciation study should be rejected.

Concerning the AG's study, except for its recognition of KU's double counting of inflation, the Commission finds little justification for the AG's position and cannot accept his proposals as reasonable. The AG proposes that net salvage be based on a 5-year average. KU contends that the 5-year average is not appropriate because of intercompany transfers between LG&E and KU.<sup>61</sup> The Commission notes that the major reason for basing depreciation rates on an analysis of historical records is the expectation that the future is likely to follow trends that have occurred in the past.

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<sup>60</sup> Response to the Commission Staff's Second Data Request dated February 3, 2004, Item 24(b), corrected in Robinson Rebuttal Testimony at 53 and Rebuttal Exhibit EMR-7.

<sup>61</sup> Robinson Rebuttal Testimony at 16.

Therefore, it is not reasonable to use a 5-year average that contains unrepresentative data, but rather it would be more reasonable to use a longer time period in which such anomalies are likely to be averaged out.

The AG's claim that KU likely would never incur, or had no legal obligation to incur, the included retirement costs is irrelevant. The real question is whether it is reasonable to capitalize the cost of removal in order to recover those costs over the life of the investment. Capitalizing the cost of removal is a common practice and it has been accepted by this Commission for a number of years. The AG has not presented sufficient evidence in this case to persuade us to change this practice.

The AG has also suggested that \$235,100,000<sup>62</sup> of alleged over-stated depreciation reserve be amortized back to ratepayers over 10 years. What the AG seems to have not recognized is that when the remaining life technique is utilized, one of the early steps in the process of calculating remaining life rates is to calculate a theoretical reserve. The amount of deviation, whether positive or negative, of the actual reserves from the calculated theoretical reserves is then spread over the remaining life of the investment. Amortizing the deviation from the theoretical reserve over the remaining life of the investment is reasonable, and is normally incorporated in the depreciation rates. The performance of depreciation studies on a regular basis, including the determination of the current deviation from the theoretical depreciation reserve, is a reasonable alternative to an amortization over a fixed period of years.

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<sup>62</sup> The AG did not provide a schedule showing the determination of the \$235,100,000 but instead references approximately 20 pages of detailed accounting printouts as the source of the figure. See Majoros ARO and SFAS 143 Direct Testimony at 21.

The AG's extension of certain transmission and distribution asset service lives appears to be arbitrary rather than based on objective data. Depreciation estimates are just that - estimates. There are zones of reasonableness within which reasonable people will disagree. However, it is not reasonable to always select the service life that produces the lowest depreciation rates. Therefore, the Commission finds that the depreciation study submitted by the AG should also be rejected.

The Commission is especially concerned by the AG's interpretation of the provisions of FERC Order No. 631. As discussed above, FERC Order No. 631 generally adopted the provisions of SFAS No. 143. The AG's proposal to establish a net salvage allowance relates to non-ARO assets, those assets for which KU does not have a legal retirement obligation. Concerning the removal costs associated with these non-ARO assets, FERC Order No. 631 states:

37. The purpose of this rule is to establish uniform accounting requirements for the recognition of liabilities for legal obligations associated with the retirement of tangible long-lived assets. The accounting for removal costs that do not qualify as legal retirement obligations falls outside the scope of this rule. The Commission is aware that there is an ongoing discussion in the accounting community as to whether the cost of removal should be considered as a component of depreciation. However, this issue is beyond the scope of this rule and we are not convinced that there is a need to fundamentally change accounting concepts at this time.

38. Instead we will require jurisdictional entities to maintain separate subsidiary records for cost of removal for non-legal retirement obligations that are included as specific identifiable allowances recorded in accumulated depreciation in order to separately identify such information to facilitate external reporting and for regulatory analysis, and rate setting purposes. (emphasis added)

The language in FERC Order No. 631 clearly does not require the separation of the net salvage component from depreciation rates or the creation of a net salvage allowance



as advocated by the AG. The requirement that separate subsidiary records be maintained is significantly different from requiring separation from depreciation rates.

Based on our findings to reject both of the depreciation studies submitted in this record, the Commission has normalized KU's test-year depreciation expense by applying the current depreciation rates to the utility plant in service as of September 30, 2003. This results in an increase to KU's jurisdictional depreciation expense of \$412,065.<sup>63</sup> The Commission further recognizes KU's willingness to file a new depreciation study by the earlier of its next general rate case or June 30, 2007, based on plant in service as of a date no earlier than one year prior to the filing. This proposal is reasonable and will be accepted by the Commission.

#### Labor and Labor-Related Costs

KU proposed an increase in its jurisdictional labor and labor-related costs of \$1,002,076. The proposed adjustment reflected the annualization of wages and salaries for the test year, the associated impact on payroll taxes, and an increase in the 401(k) company match.<sup>64</sup> When preparing the adjustment, KU assumed that Social Security and Medicare taxes would apply to 100 percent of the wage increase. It subsequently determined that at the end of year 2003, 99.06 percent of the wages did

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<sup>63</sup> Response to the Commission Staff's Second Data Request dated February 3, 2004, Item 16(a), page 3 of 7. For total company operations, the normalized depreciation expense increase was \$472,016. Applying the jurisdictional allocation factor of 87.299 percent results in a Kentucky jurisdictional increase of \$412,065.

<sup>64</sup> Rives Direct Testimony, Rives Exhibit 1, Schedule 1.12.

not exceed the Social Security wage limit, and it revised the increase proposed for the payroll taxes.<sup>65</sup>

The Commission believes that the labor adjustment should reflect the impact of the Social Security wage limit. The approach utilized by KU to determine the impact of this wage limit is reasonable. Based on this revised payroll tax adjustment, the Commission finds that KU's jurisdictional labor and labor-related costs should be increased by \$1,001,546.<sup>66</sup>

#### Pension and Post-Retirement Expenses

KU proposed to increase its test-year jurisdictional expense for pensions and post-retirement expenses by \$3,014,859. KU explained that this adjustment was necessary to reflect the 2003 known and measurable changes in the expenses as determined by its actuary.

The AG opposed this adjustment on the basis that KU was locking into base rates a very high level of pension and post-retirement expense that would very probably decline in the next few years. The AG argued that low interest rates and changes in the pension and post-retirement plan asset values contributed to the high level of expense KU was seeking to recover in this case. The AG contended that interest rates should begin to increase over the next decade and that the value of the pension and post-retirement plan asset values would probably increase too. The AG noted that most

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<sup>65</sup> Response to the Commission Staff's Second Data Request dated February 3, 2004, Item 16(d)(3).

<sup>66</sup> The increase of \$1,001,546 reflects an increase in wages of \$1,024,366, plus a payroll tax increase of \$77,767, plus an increase in the 401(k) company match of \$25,404. These components total \$1,127,537. Applying the jurisdictional allocation factor of 88.826 percent results in the Kentucky jurisdictional increase of \$1,001,546.

companies do not fully revalue their pension assets each year, but rather use a “smoothing” technique when determining the plan asset values. The AG claimed that the rejection of KU’s proposed adjustment would be consistent with the Commission’s treatment of this expense in Case No. 2000-00080.<sup>67</sup>

KU disagreed with the AG’s position and asserted that the assumptions underlying the AG’s testimony were incorrect and not supported. KU noted that the assumption that low interest rates have contributed to the rise in the pension and post-retirement expense is not necessarily correct. Depending on the plan demographics, a lower interest rate may not always cause increases in the interest cost component. KU stated that its external auditor does not permit it or the other LG&E Energy companies to use the “smoothing” technique, but instead requires the use of the fair market value methodology. KU argued that the AG’s unsupported speculation does not eliminate the fact that the proposed increase in pension and post-retirement expense is a known and measurable adjustment that should be adopted.<sup>68</sup>

The Commission has in previous cases recognized the results of current actuarial studies in determining the reasonable level of pension and post-retirement expenses to include for rate-making purposes.<sup>69</sup> Here, KU has provided substantial

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<sup>67</sup> Majoros Accounting Direct Testimony at 10-16.

<sup>68</sup> Scott Rebuttal Testimony at 11-14.

<sup>69</sup> See Case No. 2000-00373, May 21, 2001 Order at 13-14 and Case No. 2001-00244, Adjustment of Rates of Fleming-Mason Energy Cooperative Corporation, final Order dated August 7, 2002 at 15-16.

evidence to support its adjustment and we find it persuasive. The Commission also notes that KU's pension and post-retirement plans are currently underfunded.<sup>70</sup>

The Commission is not persuaded by the AG's arguments. The determination of pension and post-retirement benefit obligations and expenses is a very complex calculation, yet the AG isolates and comments on only two of many factors that are considered in those calculations. The AG has offered very little tangible evidence in support of his assumptions. While citing the Commission's decision in Case No. 2000-00080 as support for his proposed disallowance of KU's adjustment, the AG has not explained how the circumstances described in that decision are applicable to KU's current situation.<sup>71</sup> Therefore, the Commission finds that KU's proposal to increase its jurisdictional pension and post-retirement expense is reasonable and should be approved.

The Commission does have concerns about the underfunded status of KU's pension and post-retirement plans. KU should develop and implement a plan that eliminates the underfunding within a reasonable period of time. This plan should be filed with the Commission within one year from the date of this Order. In addition, KU should file progress reports describing the progress made in eliminating the underfunding of its pension and post-retirement plans. The progress reports should be

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<sup>70</sup> Post-Hearing Data Responses to Information Requested by the Commission Staff and the AG during Hearing held May 4-6, 2004, Item 9.

<sup>71</sup> In Case No. 2000-00080, LG&E had proposed an adjustment to pension expense based on a 5-year average of historical pension costs. The AG's adjustment had been based on an actuarial estimate rather than a full actuarial report for calendar year 2000. After noting problems with both approaches, the Commission rejected both adjustments and left pension expense at the test-year level. See Case No. 2000-00080, September 27, 2000 Order at 33-35.

filed every two years, and will be due with the filing of KU's annual financial report. The first progress report should be filed by March 31, 2007.

### Storm Damage Expense

KU proposed to normalize its storm damage expense by using a 4-year historic average adjusted for inflation. KU noted that it only had 4 years of historical data available for this adjustment, and that the February 2003 ice storm expenses were not included in the calculation of the proposed adjustment. KU stated that this was the same methodology utilized by the Commission in Case No. 1990-00158. The normalization resulted in a jurisdictional decrease of \$473,014 over the test-year actual expense.

While the Commission would prefer the use of a 10-year historic average, that data is not available and we will agree with the methodology used by KU. However, the inflation factor was not determined in a manner consistent with the approach used by the Commission in previous cases. The inflation factor previously used by the Commission is based upon the Consumer Price Index – All Urban Consumers (“CPI-U”).<sup>72</sup> To determine the inflation factor for a particular year, the Commission divides the CPI-U for the base year by the CPI-U for the particular year.<sup>73</sup> The Commission has recalculated the storm damage expense adjustment using the inflation factor approach

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<sup>72</sup> KU provided the CPI-U for the 4-year period in its response to the Commission Staff's Second Data Request dated February 3, 2004, Item 16(f).

<sup>73</sup> In this case, the base year is 2003. The calculation of the inflation factor for 2000 would take the CPI-U for 2003 divided by the CPI-U for 2000, in this example, 184.0 divided by 172.2. This results in an inflation factor for 2000 of 1.0685.

previously utilized and determined that KU's jurisdictional storm damage expense should be decreased by \$474,209.

### Rate Case Expense

When KU filed its rate case, it estimated that the total cost of the case would be \$1,057,368. KU requested the recovery of its rate case expenses over a 3-year period, noting that this approach was consistent with previous Commission decisions. Based on the estimated rate case expenses, KU included a rate case expense of \$352,456. Throughout this proceeding, KU has been filing updated rate case expense information. KU's latest update of actual rate case expense shows a total expense of \$1,190,654.<sup>74</sup>

Consistent with previous decisions, the Commission believes that only the actual, reasonable rate case expenses incurred in presenting this case should be recovered over a 3-year period. However, a review of KU's invoices for legal services reveals that the descriptions of services provided have been redacted for several line items on the basis that the information was protected by the attorney-client privilege.<sup>75</sup> KU later provided an affidavit of its counsel to affirm that the redacted legal costs were associated with this rate case.<sup>76</sup> The Commission recognizes and appreciates KU's right to assert its privilege to not disclose the nature of certain legal work performed by

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<sup>74</sup> KU Updates of the Responses to the Commission Staff's First Data Request dated December 19, 2003, Items 43, 44, and 57, filed May 28, 2004. KU has provided supporting documentation for all rate case expenses reported throughout this proceeding. The last update reported expenses of \$1,190,710, but the Commission determined there was an error in the math on the schedule of expenses.

<sup>75</sup> Response to the Commission Staff's Second Data Request dated February 3, 2004, Item 1, pages 8, 14, 17-18, and 21-25 of 83.

<sup>76</sup> Response to the Commission Staff's Third Data Request dated March 1, 2004, Item 3(c).

its attorneys. However, when a utility seeks to recover an expenditure in its rates, the Commission is obligated to review the nature of that expenditure to verify that it is just and reasonable. In this instance, we are unable to determine from the evidence of record the nature of certain legal services performed and whether those services were related to this rate case. Therefore, the Commission finds that \$18,929 should be disallowed from the latest reported actual rate case expense. The Commission has calculated that the first year of a 3-year amortization of the actual rate case expenses is \$390,575 and jurisdictional operating expenses have been increased by this amount.

### Injuries and Damages

KU proposed to adjust its test-year expense for injuries and damages based on normalizing the actual expenses for a 5-year period, adjusted for inflation. KU used the same methodology that it proposed for adjusting its storm damage expense, except that it excluded its test-year expenses and based the adjustment on the past 5 years rather than 4 years. KU determined its jurisdictional injuries and damages expense needed to be increased by \$261,138. KU subsequently stated that a 10-year historical period would result in a better representation of normal expenses, and it recalculated the adjustment for injuries and damages using the same methodology as it did for storm damage expense, but with a 10-year period. The recalculation produced an increase in expense of \$1,218,999.<sup>77</sup>

The Commission finds it reasonable to calculate this adjustment using the same methodology used to determine the storm damage expense adjustment. Like storm damages, the injuries and damages expense can fluctuate significantly from year to

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<sup>77</sup> Scott Rebuttal Testimony at 6-7 and VLS Rebuttal Exhibit 2, page 2 of 2.

year. The 10-year historic average, adjusted for inflation, should produce a more reasonable ongoing level of expense. The recalculated adjustment in KU's rebuttal testimony used the same inflation factors as KU used in its storm damage expense adjustment. As discussed previously, the inflation factors were not determined in a manner consistent with previous Commission decisions. The Commission has calculated the 10-year historic average for injuries and damages, adjusted for inflation. Based upon this calculation, the Commission finds that KU's jurisdictional injuries and damages expense should be increased by \$1,238,006.

#### Information Technology Staff Reduction

In October 2003, LG&E Energy Services, Inc. reduced its Information Technology staff by 27 employees. KU proposed a jurisdictional operating expense reduction of \$601,682, to reflect the savings from this staff reduction, offset by the first year of a 3-year amortization of the costs to achieve the reduction. KU determined the savings from the reduction based on payroll expense, payroll tax, and the 401(k) plan match.<sup>78</sup>

The Commission notes that KU did not recognize savings from the Team Incentive Awards ("TIA") program in its calculation of this adjustment.<sup>79</sup> The Commission finds that these savings should be included in the calculation of the

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<sup>78</sup> Rives Direct Testimony, Rives Exhibit 1, Schedule 1.26.

<sup>79</sup> KU indicated that the TIA savings resulting from this staffing reduction would be \$77,514 on a total company basis. See Response to the Commission Staff's Third Data Request dated March 1, 2004, Item 21.



adjustment. Consequently, KU's jurisdictional operating expenses should be reduced by \$670,534.<sup>80</sup>

#### Nitrogen Oxide ("NOx") Expense

Under the terms of its current power contract with Owensboro Municipal Utilities ("OMU"), KU is obligated to pay OMU an increase in demand charges for KU's portion of OMU's environmental compliance with NOx regulations beginning July 1, 2004. KU proposed a jurisdictional expense increase of \$1,959,879, which reflects its estimate of the increases in demand charges that will begin on July 1, 2004.

The increase in the purchased power demand costs is associated with OMU's debt service on its NOx compliance facilities. The payment of this additional debt service is recognized in the current contract between KU and OMU. The debt service dates are fixed and will not change, and KU will be billed the debt service in July 2004 once the project is declared commercially operational.<sup>81</sup> The interest rate on the debt is a variable rate. KU's actual purchased power demand costs from OMU could fluctuate monthly depending on the percentage of OMU's capacity that KU uses and the interest rate on the debt.<sup>82</sup>

While the Commission agrees that KU will have to pay increased demand charges to OMU due to the debt service on OMU's NOx compliance facilities, the

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<sup>80</sup> The adjustment was recalculated using the format shown in Rives Exhibit 1, Schedule 1.26 and increasing line 7 by the TIA expense savings of \$77,514. The 88.826 percent jurisdictional factor was applied to the net cost reduction to arrive at the \$670,534.

<sup>81</sup> Response to the Commission Staff's Second Data Request dated February 3, 2004, Item 16(l)(1) and Attachment to the Response, page 1 of 3.

<sup>82</sup> T.E., Volume II, May 5, 2004, at 156-157.

amount of that payment is not sufficiently measurable. The payments to OMU could vary from the amounts KU has estimated due to different levels of capacity used by KU and fluctuations in the variable interest rate charged for the NOx facilities debt. In addition, KU is not expected to begin incurring this expense until 9 months after the end of its test year in this case. The Commission generally has not recognized adjustments occurring that far beyond the end of the test year. Based upon these factors, the Commission finds that KU's estimate of its increased OMU demand charge is not sufficiently measurable to permit inclusion for rate-making purposes. Therefore, KU's proposed adjustment is rejected.

#### February 2003 Ice Storm Expenses

Between February 14-16, 2003, KU's distribution system was impacted by a significant ice storm. KU incurred \$15,540,679 in jurisdictional operating and maintenance expenses due to the storm, and received an insurance reimbursement for \$8,944,009 during the test year. KU proposed to defer and to amortize the unreimbursed balance of the ice storm expenses over a 5-year period, contending this approach was consistent with the Commission's treatment of 1974 tornado damages for LG&E.<sup>83</sup> KU's proposal would net the first year's amortization expense of \$1,319,334 against the unreimbursed balance of \$6,596,670, resulting in a reduction in test-year jurisdictional operating expenses of \$5,277,336.

The unreimbursed ice storm expenses were recorded as expenses during 2003 and, as such, were included in the calculation of KU's earnings under its calendar year

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<sup>83</sup> Rives Direct Testimony, Rives Exhibit 1, Schedule 1.31 and Scott Direct Testimony at 14.

2003 ESM.<sup>84</sup> For calendar year 2003, KU experienced an earnings deficit of \$24,157,776.<sup>85</sup> Under the provisions of KU's ESM, 40 percent of this deficit, or \$16,232,669, was recovered through an ESM factor charged on ratepayers bills beginning in April 2004.<sup>86</sup> While acknowledging that the unreimbursed ice storm expenses were included in the ESM calculations for 2003, KU argued that its proposed adjustment in the rate case was an attempt to normalize this type of expense in base rates. KU excluded the unreimbursed ice storm expenses from its storm damage expense adjustment to avoid skewing the results for the storm damage expense calculation.<sup>87</sup>

Given the nature and significance of the event, the Commission believes that KU's proposal to defer and amortize over 5 years the February 2003 ice storm is reasonable. However, we do not agree on the amount to be deferred. While KU has focused its arguments on establishing a reasonable level of expense to be included for rate-making purposes, it has ignored the fact that a portion of the expenses it proposes to defer are already being recovered from ratepayers through its ESM. As the terms of the ESM Settlement, discussed previously in this Order, provide that the calendar year 2003 ESM factor is to be accepted as filed, the Commission will modify the amount of unreimbursed ice storm expenses recovered through base rates.

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<sup>84</sup> T.E., Volume II, May 5, 2004, at 158.

<sup>85</sup> See Case No. 2004-00070, Form 1, line 4.

<sup>86</sup> Forty percent of the 2003 earnings deficit is \$9,663,110. The total amount collected through the ESM factor from ratepayers reflects 40 percent of the earnings deficit grossed up for income taxes.

<sup>87</sup> T.E., Volume II, May 5, 2004, at 159-160.

The Commission has reduced the unreimbursed ice storm expenses by 40 percent, leaving \$3,958,002 eligible for deferral and amortization. The first year of a 5-year amortization of this amount equals \$791,600. The adjusted first-year amortization will then be netted against the test-year total unreimbursed ice storm expense to determine the adjustment to jurisdictional operating expenses. Based on these calculations, the Commission finds that KU's jurisdictional operating expenses should be reduced by \$5,805,070.

#### Retirements at Green River and Pineville

KU proposed to reduce its jurisdictional operating and maintenance expenses by \$705,035 to reflect the retirement of its Green River Units 1 and 2. KU incurred these expenses during the test year, but since KU planned to retire the units in early 2004, it removed the expenses for rate-making purposes. During the processing of this case, it was discovered that KU had paid property taxes on these units and the jurisdictional amount of the property taxes was \$153.<sup>88</sup> KU noted that due to FERC accounting for the retirement of Green River Units 1 and 2, the net book asset value associated with the generating units would not be reduced; consequently, KU's property taxes may not actually reduce.<sup>89</sup>

Regardless of how the retirement has been accounted for by KU, the Commission believes that if the asset is not providing service to ratepayers and has been retired, no costs associated with the retired asset should be recovered from

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<sup>88</sup> Post-Hearing Data Responses to Information Requested by the Commission Staff and the AG during Hearing held May 4-6, 2004, Item 8.

<sup>89</sup> Id.

ratepayers. Therefore, the Commission finds that KU's adjustment to remove jurisdictional expenses resulting from the retirement of Green River Units 1 and 2 should be increased by \$153 to a total adjustment of \$705,188.

In December 2002, KU retired the Pineville Unit 3 generating unit. KU acknowledged that there were jurisdictional operating and maintenance expenses and property taxes associated with Pineville Unit 3 in its test-year operating expenses.<sup>90</sup> KU stated that it was an oversight that these expenses had not been removed from the test year and agreed such an adjustment should be made.<sup>91</sup> However, KU raised the same concern about the property taxes associated with Pineville Unit 3 as it did for the Green River Units 1 and 2.<sup>92</sup>

The Commission believes the operating and maintenance expenses and property taxes associated with the retired Pineville Unit 3 should be excluded for rate-making purposes, as was done for the Green River Units 1 and 2 retirements. Therefore, the Commission finds that jurisdictional operating expenses should be reduced by \$22,963.

#### Miscellaneous Expenses

During the test year, KU recorded charitable contributions of \$16,694 in accounts other than Account No. 426. KU agreed that the charitable contributions that had been recorded in error in accounts other than Account No. 426 should be removed for rate-

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<sup>90</sup> Response to KIUC's Second Data Request dated March 1, 2004, Items 6 and 8.

<sup>91</sup> T.E., Volume II, May 5, 2004, at 153-154.

<sup>92</sup> Post-Hearing Data Responses to Information Requested by the Commission Staff and the AG during Hearing held May 4-6, 2004, Item 7.

making purposes.<sup>93</sup> The Commission agrees that the charitable contributions should be excluded for rate-making purposes and has reduced jurisdictional operating expenses by \$16,694.

During the test year, KU incurred jurisdictional expenses of \$51,989 for employee gifts, award banquets, and other social events. KU argued that the expenses were reasonable and should be charged to ratepayers because they reward employees in connection with KU's safety programs and provided incentives to motivate and reward employees.<sup>94</sup>

The Commission believes that the expenses for employee gifts, award banquets, and social events should be excluded for rate-making purposes. In previous cases,<sup>95</sup> the Commission has not included these types of costs when determining rates, and KU has not provided adequate justification to support a different treatment. In addition, the Commission notes that emphasis on safety and incentives to encourage employee performance are incorporated into KU's TIA program. KU did agree that there was some overlap between the TIA program and the purpose for these expenses.<sup>96</sup>

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<sup>93</sup> Response to the Commission Staff's Third Data Request dated March 1, 2004, Item 35.

<sup>94</sup> Id., Item 39.

<sup>95</sup> See Case No. 1990-00041, An Adjustment of Gas and Electric Rates of The Union Light, Heat and Power Company, final Order dated October 2, 1990 at 28-29; Case No. 1997-00066, An Adjustment of General Rates of Delta Natural Gas Company, Inc., final Order dated May 1, 1998 at 16-17; and Case No. 2001-00244, August 7, 2002 Order at 27-28.

<sup>96</sup> T.E., Volume II, May 5, 2004, at 176.

Therefore, the Commission will reduce KU's jurisdictional operating expenses by \$51,989.

The Commission supports KU's efforts to reinforce the need for safety among their employees and encourages KU to develop appropriate safety programs. In future rate case, the Commission will reconsider the treatment of safety-related awards to the extent that KU can provide adequate documentation to show that these awards and other activities are integral components of a formal safety program.

During the test year, KU was a member of the Edison Electric Institute ("EEI") and allocated dues of \$147,837 to its Kentucky jurisdiction. During the proceeding, KU was questioned about the activities of EEI funded by the membership dues. KU acknowledged that a portion of the EEI dues was associated with legislative advocacy and public relations and that it should be excluded for rate-making purposes. KU proposed that 31.55 percent of its EEI dues, or \$46,643, be excluded.<sup>97</sup>

The Commission has reviewed the description of the various activities funded by the EEI dues,<sup>98</sup> and finds that the portion of the dues associated with legislative advocacy, regulatory advocacy, and public relations should be excluded for rate-making purposes. The description of regulatory advocacy appears to be a form of lobbying activity, which the Commission has not included for rate-making purposes in previous

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<sup>97</sup> Post-Hearing Data Responses to Information Requested by the Commission Staff and the AG during Hearing held May 4-6, 2004, Item 11.

<sup>98</sup> Response to the Commission Staff's Third Data Request dated March 1, 2004, Item 40.

cases. These three categories account for 45.35 percent of the EEI dues.<sup>99</sup> Applying the 45.35 percent exclusion to the test-year jurisdictional EEI dues results in a reduction of \$67,044.<sup>100</sup>

Based on these conclusions, the Commission has reduced jurisdictional miscellaneous expenses by \$135,727.

#### Kentucky Income Tax Rate

KU determined that its jurisdictional federal and Kentucky income tax expense would be reduced by \$16,152,919, based upon its proposed adjustments to jurisdictional revenues and expenses. KU's calculation reflected the use of the statutory federal income tax rate of 35 percent and the statutory Kentucky income tax rate of 8.25 percent.

The AG proposed that LG&E's effective Kentucky income tax rate for tax year 2002 of 7.87 percent should be used in all of KU's income tax and income tax-related calculations. The AG assumed that LG&E's effective tax rate would apply to KU, since both LG&E and KU pay the same Kentucky taxes.<sup>101</sup> The AG did not file any testimony in the KU case explaining his reasons for using the Kentucky effective income tax rate.

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<sup>99</sup> Post-Hearing Data Responses to Information Requested by the Commission Staff and the AG during Hearing held May 4-6, 2004, Item 11, page 2 of 3.

<sup>100</sup> Jurisdictional EEI dues of \$147,837 times 45.35 percent equals \$67,044.

<sup>101</sup> Response to the Commission Staff's First Data Request to the AG dated April 6, 2004, Item 4. KU's effective income tax rate for 2002 was 7.64 percent excluding credits and 7.35 percent including credits; See Response to the Commission Staff's Second Data Request dated February 3, 2004, Item 15(e)(2).



However, the AG has advocated for consistency in the rate-making treatment of adjustments in this case and the LG&E case.<sup>102</sup>

KU opposed the use of the Kentucky effective income tax rate, noting that the Commission has always used the statutory tax rate and that consistent treatment should be afforded to KU. KU argued that the effective tax rate reflects the impacts of credits and apportionment adjustments from out-of-state activities, which could change in the future. KU stated that the use of the effective tax rate would ignore the fact that it pays taxes in Virginia and Tennessee. If the effective tax rate is to be used, KU reasoned that the Virginia tax should be excluded in the determination of the effective tax rate, which in this case would be 7.98 percent.<sup>103</sup>

As stated previously, the AG filed no testimony to support the use of the effective Kentucky income tax rate, but apparently has relied on the testimony he filed in the LG&E rate case, Case No. 2003-00433. The Commission takes administrative notice of its reasons for rejecting the AG's position in that case, and affirms those reasons in this proceeding. Consistent with our expressed concern in Case No. 2003-00433 on this issue, the proper treatment of taxes paid in Virginia and Tennessee would have to be addressed if the effective Kentucky income tax rate is to be utilized. Therefore, the Commission finds that the statutory Kentucky income tax rate should be utilized for all income tax and income tax-related adjustments in this rate case. In KU's next rate case, it should address in detail the use of the effective tax rate for rate-making purposes.

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<sup>102</sup> AG's Post-Hearing Brief at 26.

<sup>103</sup> Rives Rebuttal Testimony at 9-10.

Based upon these findings and the Commission's determination of the jurisdictional revenue and expense adjustments, the Commission has reduced KU's electric income tax expense \$16,622,465.

#### Interest Synchronization

KU proposed to reduce its jurisdictional interest expense by \$1,618,028, which resulted in an increase to jurisdictional income tax expense of \$653,076.<sup>104</sup> KU stated that it followed the methodology used by the Commission in Case No. 2000-00080. KU multiplied its proposed adjusted jurisdictional capitalization by its proposed weighted average cost of debt to determine its normalized jurisdictional interest expense. The normalized interest expense was then compared to the test-year actual interest expense per KU's books.

The Commission has recalculated the interest synchronization adjustment, reflecting the debt components of KU's jurisdictional capitalization, the corresponding interest cost rates found reasonable in this Order, and the statutory Kentucky income tax rate. The Commission has determined that KU's jurisdictional interest expense should increase \$759,017, resulting in a reduction in income taxes of \$306,358.

#### Pro Forma Net Operating Income Summary

After consideration of all pro forma adjustments and applicable income taxes, the adjusted net operating income for KU's jurisdictional operations is as follows:

|  |                      |
|--|----------------------|
| Operating Revenues                     | \$710,376,288        |
| Operating Expenses                     | <u>649,144,765</u>   |
| Adjusted Electric Net Operating Income | <u>\$ 61,231,523</u> |

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<sup>104</sup> Rives Direct Testimony, Rives Exhibit 1, Schedule 1.35.

## RATE OF RETURN

### Capital Structure

KU proposed an adjusted test-year-end jurisdictional capital structure containing 36.70 percent long-term debt, 5.90 percent short-term debt, 2.95 percent accounts receivable securitization, 2.39 percent preferred stock, and 52.06 percent common equity.<sup>105</sup> As discussed previously in this Order, KU has allocated several adjustments to its capitalization on a pro rata basis or to common equity only as it determined appropriate.<sup>106</sup> During the proceeding, KU stated it had considered the Commission's policy of recognizing the impact on capital cost and capital structure of significant post-test-year issues of debt or equity. KU has updated its capital structure to reflect post-test-year changes, with the last update reflecting financial information as of March 31, 2004.<sup>107</sup> Using this latest financial information, KU determined its capital structure as 41.95 percent long-term debt, 2.49 percent short-term debt, 2.26 percent preferred stock, and 53.30 percent common equity. This updated capital structure did not reflect an adjustment for KU's minimum pension liability as of December 31, 2003. In March

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<sup>105</sup> Rives Direct Testimony, Rives Exhibit 2.

<sup>106</sup> KU allocated adjustments for the removal of the investment in Electric Energy, Inc., the removal of other investments, the removal of reimbursed capital invested to repair combustion turbines at the E. W. Brown Generating Station, the retirement of the Green River Units 1 and 2, and the removal of its Post-1994 environmental compliance plan investments on a pro rata basis to all components of capitalization. The proposed adjustments for the minimum pension liability to Other Comprehensive Income and the removal of undistributed subsidiary earnings were allocated to common equity only.

<sup>107</sup> Response to the Commission Staff's Third Data Request dated March 1, 2004, Item 12. KU's update that reflected financial information as of March 31, 2004 was filed with the Commission on April 29, 2004.

2004, KU applied the accounting decision announced by FERC concerning the creation of a regulatory asset to reverse the impact of the minimum pension liability.

The AG proposed an adjusted test-year-end jurisdictional capital structure for KU containing 36.99 percent long-term debt, 5.95 percent short-term debt, 2.97 percent accounts receivable securitization, 2.41 percent preferred stock, and 51.67 percent common equity.<sup>108</sup> The only difference from KU's proposal was that the AG rejected KU's treatment of the minimum pension liability. The AG did not oppose KU updating its the capital structure, but the AG did state that the capital structure ratios could be updated beyond the test year only if the changes were minor so that any change in the company's financial risk would also be minor. Changes beyond the test year that affected the financial risk should not be allowed, according to the AG.<sup>109</sup>

In December 2000, the Commission approved KU's 3-year pilot accounts receivable securitization program in Case No. 2000-00490.<sup>110</sup> At the end of the pilot period, KU decided not to seek a continuation of the program, and consistent with the decision in Case No. 2000-00490, the accounts receivable securitization program was terminated on January 16, 2004. KU replaced the funding provided by the accounts

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<sup>108</sup> Majoros Accounting Direct Testimony, Exhibit MJM-3.

<sup>109</sup> Weaver Testimony at 77-78.

<sup>110</sup> Case No. 2000-00490, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving the Transfer of Certain Financial Assets, final Order dated December 13, 2000.

receivable securization program with a mix of short-term and long-term debt from Fidelia, Inc. (“Fidelia”).<sup>111</sup>

As correctly noted by KU, the Commission in previous cases has recognized the impact on the capital structure of significant post-test-year issues of debt or equity in order to determine the appropriate capital structure. Consequently, the Commission finds it is reasonable to recognize the termination of the accounts receivable securization program and the issuance of debt from Fidelia in the determination of the capital structure.

However, we do not agree with KU’s proposal to simply use the updated capital structure as of March 31, 2004. Unlike its debt, KU did not issue any new shares of common stock. The March 31, 2004 financial information reflects the current level of net income from operations in Retained Earnings. As discussed previously in this Order, the Commission has recognized the adjustment to test-year-end common equity for the minimum pension liability. That minimum pension liability reflected the determination made at December 31, 2002. The application of the FERC accounting decision and creation of the regulatory asset reflected in the March 31, 2004 financial information reflect a minimum pension liability determined as of December 31, 2003. If the Commission were to use the capital structure based on the March 31, 2004 financial information, there would be a mismatch related to the minimum pension liability. The Commission’s decision to allow the reversal of the December 31, 2002 minimum

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<sup>111</sup> Fidelia is owned by E.ON North America Inc. and E.ON US Holding GmbH, which are subsidiaries of E.ON. See Response to the Commission Staff’s First Data Request dated December 19, 2003, Item 2.

pension liability to common equity is the appropriate means of handling this issue, and it should be recognized in the capital structure.

As shown in Appendix E, the Commission finds KU's jurisdictional capital structure is as follows:

|  | <u>Percent</u> |
|--|----------------|
| Long-Term Debt                         | 43.65          |
| Short-Term Debt                        | 2.41           |
| Preferred Stock                        | 2.36           |
| Common Equity                          | <u>51.58</u>   |
| Total Jurisdictional Capital Structure | 100.00         |

#### Cost of Debt and Preferred Stock

KU proposed a cost of long-term debt of 3.12 percent, short-term debt of 1.06 percent, accounts receivable securitization of 1.39 percent, and preferred stock of 5.68 percent.<sup>112</sup> As noted previously, KU filed updated financial information as of March 31, 2004 that included updated cost rates. Based on this updated information, KU's cost of long-term debt is 3.28 percent, short-term debt is 0.98 percent, and preferred stock is 5.64 percent.<sup>113</sup>

The AG used KU's costs of debt and preferred stock as filed in its application. The AG agreed that if interest rates or other capital cost rates change, such changes should be used to determine of the rate of return so that KU will have a reasonable opportunity to earn its allowed rate of return.<sup>114</sup>

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<sup>112</sup> Rives Direct Testimony, Rives Exhibit 2.

<sup>113</sup> Updated Monthly Response to the Commission Staff's First Data Request dated December 19, 2003, Item 43, filed April 29, 2004.

<sup>114</sup> Weaver Testimony at 77.

The Commission finds it appropriate to recognize the cost rates for debt and preferred stock as of March 31, 2004 when determining the overall cost of capital for KU's jurisdictional operations. Updates to KU's debt and preferred stock cost rates constitute known and measurable adjustment and using these updates, rather than the test-year-end cost rates, is more representative of the period in which the rates established in this Order will be in effect. These cost rates will be applied to the jurisdictional capital structure determined herein. Therefore, the Commission finds the cost of long-term debt to be 3.28 percent, short-term debt to be 0.98 percent, and preferred stock to be 5.64 percent.

#### Return on Equity

KU estimated its required return on equity ("ROE") using four methods: the capital asset pricing model ("CAPM"), the discounted cash flow method ("DCF"), two risk premium analyses, and a comparable earning approach.<sup>115</sup> The CAPM analysis includes an adjustment of 60 basis points in order to recognize a size premium for some of the low- and mid-capitalization companies in the comparison group. KU explained that it employed multiple methods in determining its cost of equity because of potential measurement errors in the models as a result of industry changes, such as merger activity and price volatility.

Based on the results of the four methods, KU recommends an ROE range for its jurisdictional operations of 10.75 to 11.25 percent.<sup>116</sup> KU recommends awarding the

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<sup>115</sup> Rosenberg Direct Testimony at 2.

<sup>116</sup> Id. at 4.

upper end of the range, 11.25 percent, in order to recognize its efficient operations and the current uncertain business climate for utilities.<sup>117</sup>

KU employed a proxy group in its analysis, consisting of electric utility companies similar in risk to its electric operations. KU proposed the use of proxy companies because, as a subsidiary of LG&E Energy, it is not publicly traded. The companies were selected from the Electric Utility category of *The Value Line Investment Survey*. The selected companies had to have overall senior bond ratings of Aa/A from Moody's Investor Service and AA/A from Standard & Poor's ("S&P") rating service and could not be currently involved in major merger activity. Companies were also excluded if they had significant unregulated operations, if they did not pay a dividend, or if they expected to cut their dividend.

As part of its analysis, KU provided a discussion of the role that ROE plays in how the financial community regards a utility company. KU states that accounting scandals, federal and state investigations, and other fallout from the collapse of Enron have shaken investor confidence in the energy industry. The result is more intense scrutiny of companies and a scarcity of financing at a time when many energy companies need to refinance billions of dollars of debt. At the time of its application, KU stated that S&P had reported 41 utility issuer credit rating downgrades, as compared to only eight upgrades during 2003. Moody's had downgraded roughly a third of the utilities it follows, as compared to the 10 percent annual average downgrades it has issued over the past 19 years. KU argued that these actions indicate less tolerance for financial weakness in a utility and that they have increased the cost of financing to

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<sup>117</sup> Id.



weaker companies. In support of its argument, KU provided several citations from S&P publications that described the authorized returns for the regulated electric industry as insufficient and discussed the importance of profit potential and earning power in both credit protection and a company's ability to withstand business adversity.<sup>118</sup>

The AG criticized KU's ROE estimates on several grounds. The AG disagreed with several of the methodologies and inputs used by KU and with KU's small cap adjustment in the CAPM model. Two points which the AG identified as "fatal errors" were: (1) KU should not have used the Consumer Price Index ("CPI") when working with the Gross Domestic Product ("GDP") data; and (2) KU should have multiplied projected GDP growth and projected inflation growth instead of adding.<sup>119</sup> The AG argues that the small cap adjustment is already in the market prices of the mid- and low-capitalization companies used in the analysis and he concludes that KU's flawed analysis overstates its required cost of equity.

The AG estimated KU's required ROE using three methods: the CAPM, the bond-yield-plus-risk premium approach, and two versions of the DCF model.<sup>120</sup> Based on the results of these methods, the AG determined an ROE range of 9.75 to 10.25 percent, recommending that the Commission award 10.00 percent, the mid-point of the range.<sup>121</sup> During the hearing, the AG's witness stated that he would change his

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<sup>118</sup> Id. at 5-7.

<sup>119</sup> Weaver Testimony at 8.

<sup>120</sup> Id. at 32.

<sup>121</sup> Id. at 75.

recommendation from 10.00 percent to 10.25 percent if KU's ESM is eliminated as proposed in the settlement of this issue.<sup>122</sup>

The AG employed a proxy group in his analysis, consisting of utility companies classified as electric utilities by *Value Line*. The AG eliminated companies with a Financial Strength Rating below B, that *Value Line* did not recommend to investors, that had recently sold or purchased major assets, divested the majority of their generation plant, were involved in merger activity, or had a short operating history. The AG excluded Hawaiian Electric because it is not interconnected and also excluded any companies with a heavy reliance on hydro, nuclear or purchased power. Finally, the AG did not include any companies whose electric revenues as a percentage of total revenues were too dissimilar to that of KU.

The AG supported his analysis with a discussion of the economic conditions that would affect the ROE he recommended. He reviewed the GDP, inflation rates, interest rates and leading economic indicators. The AG believes that the GDP growth rate is within a range ideal for investment growth, that inflation is expected to continue to be low, and that interest rates are expected to be stable yet gradually increasing over the next 4 years. The AG concluded that the cost of equity for electric utilities would slowly increase over the near-term future. In fact, he made an adjustment in his DCF model to increase the results by 95 basis points to recognize an expected increase in interest rates.

On rebuttal, KU questioned the AG's recommended range since it differed by 50 to 100 basis points from the range recommended by this same witness in the ESM

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<sup>122</sup> T.E., Volume III, May 6, 2004, at 177-179.

case, which was consolidated into this rate case. In his ESM testimony, the AG recommended a range of 10.25 to 11.25 percent, just 3 months prior to filing rate case testimony in which he recommends 9.75 to 10.25 percent.<sup>123</sup> In response to questions about how KU's risk had changed since the ESM case, the AG responded that the risk had changed very little.<sup>124</sup> To further demonstrate that the AG's recommendation is too low, KU compared the AG's recommendation to the 11.00 percent average electric ROE awarded nationally by utility regulatory commissions in 2003.<sup>125</sup>

In rebutting the AG's recommendation, KU states that the AG's analysis employs misstated and misapplied approaches. KU identifies calculations that it considers incorrectly performed and, when corrected, produce a higher result. KU also addresses the two "fatal errors" that the AG identified in KU's analysis. KU defended its use of inputs, reiterating that: (1) its use of the CPI as a measure of inflation was appropriate; and (2) the AG's contention that it had added rather than multiplied in the GDP calculation was, in fact, incorrect.<sup>126</sup>

The Commission finds merit in both KU's and the AG's recommended ranges for ROE and their critiques of each other's analyses. The Commission takes note of several sources of agreement between KU and the AG. As KU points out in its rebuttal testimony, the AG's recommended range in the consolidated ESM case overlaps

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<sup>123</sup> Rosenberg Rebuttal Testimony at 4.

<sup>124</sup> Response of the Attorney General to Requests for Information from KU, dated April 6, 2004, Item 27.

<sup>125</sup> Rosenberg Rebuttal Testimony at 2.

<sup>126</sup> Id. at 15-16.

substantially with KU's recommended range. The Commission also takes note of the AG's upward revision to his recommendation due to the agreement to discontinue the ESM mechanism. KU recommended the top of its range in order to recognize its efficient management and the uncertain business environment. While the Commission is prohibited from using an ROE award to either reward or punish a utility's management,<sup>127</sup> the Commission again takes note that the AG supported, in part, the need to increase the ROE award in recognition of the uncertain business climate when he increased some of his results by 95 basis points to allow for likely increases in interest rates in the near future. Finally, the Commission notes that KU has compared the returns on equity recommended by the intervenors to recent returns on equity allowed by regulators in other jurisdictions. KU states that an April 5, 2004 edition of *Major Rate Case Decisions* of Regulatory Research Associates reports an average allowed return for electric utilities in other jurisdictions of 11 percent in the first quarter of 2004.<sup>128</sup> The Commission takes notice that this same publication subsequently reported in May 2004 that the allowed returns on equity for electric utilities in other jurisdictions ranged from 9.50 percent to 11.22 percent.<sup>129</sup> While we agree with KU when it says that ROE awards granted by other commissions should not dictate this Commission's decision, those decisions do, however, indicate that the recommendations from both parties are well within the general level of recent allowed

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<sup>127</sup> South Central Bell Telephone Company v. Utility Regulatory Commission, Ky., 637 S.W. 2d 649 (1982).

<sup>128</sup> Rosenberg Rebuttal Testimony at 2.

<sup>129</sup> Regulatory Research Associates, Inc., Regulatory Focus, May 26 and May 28, 2004.

returns. Therefore, after weighing all the evidence of record, the Commission finds that KU's required ROE falls within a range of 10.00 percent to 11.00 percent with a midpoint of 10.50 percent.

#### Rate of Return Summary

Applying the rates of 3.28 percent for long-term debt, 0.98 percent for short-term debt, 5.64 percent for preferred stock, and 10.50 percent for common equity to the capital structure produces an overall cost of capital of 7.00 percent. The cost of capital produces a rate of return on KU's jurisdictional rate base of 6.48 percent.

#### REVENUE REQUIREMENTS

The Commission has determined that, based upon a jurisdictional capitalization of \$1,297,055,596 and an overall cost of capital of 7.00 percent, the net operating income that could be justified by the record for KU's jurisdictional operations is \$90,793,892. Based on the adjustments found reasonable herein, KU's pro forma jurisdictional net operating income for the test year would be \$61,231,523 and KU would need additional annual operating income of \$29,562,369. After the provision for uncollectible accounts, the PSC Assessment, and state and federal income taxes, KU would have a revenue deficiency of \$49,775,329. The calculation of this overall revenue deficiency is as follows:

|  |                      |
|--|----------------------|
| Net Operating Income Found Reasonable  | \$ 90,793,892        |
| Pro Forma Net Operating Income         | <u>61,231,523</u>    |
| Net Operating Income Deficiency        | 29,562,369           |
| Gross Up Revenue Factor <sup>130</sup> | <u>.5939161</u>      |
| Overall Revenue Deficiency             | <u>\$ 49,775,329</u> |

However, as discussed above, KU is a signatory to the Partial Settlement and Stipulation. Thus, KU has indicated its willingness to accept an increase in annual jurisdictional revenues of \$46,100,000. In determining the overall reasonableness of this alternative proposed increase by KU, the Commission has devoted a significant portion of this Order to evaluating KU's and the AG's proposed adjustments to capital, rate base, operating revenues, and operating expenses in light of our normal rate-making treatment.

The Commission has found that KU's required ROE falls within a range of 10.00 percent to 11.00 percent. Applying the findings herein on the reasonable costs of debt and preferred stock, and this range of return on common equity, to KU's jurisdictional capitalization would result in the following range of revenue increases:

|  |              |
|--|--------------|
| Revenue Increase – 10.00 percent ROE       | \$44,097,178 |
| Revenue Increase – KU Alternative Proposal | \$46,100,000 |
| Revenue Increase – Justifiable by Record   | \$49,775,329 |
| Revenue Increase – 11.00 percent ROE       | \$55,235,088 |

Based on the findings and conclusions herein, the Commission finds that the earnings resulting from the adoption of KU's alternative proposal for its jurisdictional operations will fall within a range reasonable for both KU and its ratepayers. The \$46,100,000

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<sup>130</sup> Rives Direct Testimony, Rives Exhibit 1, Schedule 1.37. The gross up revenue factor recognizes the impact the overall revenue deficiency will have on the provision for uncollectible accounts, the PSC Assessment, Kentucky income taxes, and federal income taxes.

revenue increase that KU is willing to accept will result in fair, just, and reasonable rates for KU. Therefore, the Commission will accept KU's alternative proposal that its jurisdictional revenues be increased by \$46,100,000.

#### FINDINGS ON PARTIAL SETTLEMENT AND STIPULATION

Based upon a review of all aspects of the unanimous provisions in the Partial Settlement and Stipulation, an examination of the record, and being otherwise sufficiently advised, the Commission finds that the unanimous provisions are in the public interest and should be approved. These provisions include, but are not limited to, the VDT surcredit, a new HEA program, the dismissal of two specified court appeals, and the phase-out of the Pay As You Go program. The Commission's approval of the unanimous provisions is based solely on their reasonableness in toto and does not constitute precedent on any issue except as specifically provided for therein. Although we are approving all of the unanimous provisions, we have some concerns that need to be addressed at this time regarding certain aspects of those provisions.

#### New HEA Program

The Commission's approval of the unanimous provisions in the Partial Settlement and Stipulation includes the approval of the parameters of a new HEA program for KU. The HEA program will be funded by a 10-cent per residential meter per month charge for a period of 3 years. The charge will be set forth as a separate line item on each residential customer's bill.

The Commission certainly recognizes that low income households frequently have difficulties paying their utility bills. Consequently, financial assistance programs that subsidize the utility bills of those households are much needed. However, when

these types of programs are funded through mandatory charges on residential utility bills, the common perception is that these charges are forced charitable contributions and they generate sincere objections from many ratepayers. While it will never be possible to eliminate every objection, ratepayers will certainly have a higher degree of acceptance of the funding for these programs if they can be assured that the funds collected will be fully accounted for and spent in the most efficient manner.

It is for this reason that the Commission has always urged the utility that will be the beneficiary to be a financial contributor to the assistance program. When an affected utility is at least partially funding an assistance program, the utility has a greater incentive to monitor the program expenditures and is in a better position to assure its ratepayers that the funds are being spent in the most efficient manner. Consequently, the Commission is disappointed that KU has chosen not to be a financial contributor to the HEA program which it has agreed to implement. We urge KU to reconsider this decision, but we recognize that we have no authority to require KU to fund such a program.

In any event, there is a real need for KU to actively monitor the implementation, operation, and expenditures of the HEA program. The Commission expects KU to fulfill this role so it can provide its ratepayers with the assurances they demand and deserve regarding the efficient expenditure of the HEA funds.

The Partial Settlement and Stipulation did not address when the 10-cent per residential meter per month charge would begin. The Commission does not believe it would be reasonable for this charge to begin on the same effective date as the rates contained in the Partial Settlement and Stipulation, primarily because the programmatic



details of the HEA program have not been submitted to the Commission for approval as agreed to by the parties. The Commission finds that the HEA program 10-cent per residential meter per month charge should not be collected from ratepayers until the Commission has approved the programmatic details. The Partial Settlement and Stipulation envisions the HEA program to have a commencement date of October 1, 2004. The Commission believes it will need 60 days to review the programmatic details. Therefore, the Commission expects that the programmatic details for the new HEA program would be submitted for approval no later than August 1, 2004.

In addition, prior Commission Orders outlined several concerns about previous HEA programs in the Orders in Case No. 2001-00323.<sup>131</sup> The Commission continues to have those same concerns, and expects the proponents of this new HEA to address those concerns when the programmatic details are submitted to the Commission for its review and approval.

## OTHER ISSUES

### Curtailable Service

On June 17, 2004, KU filed a letter, which the Commission will treat as a motion, regarding a potential problem related to proposed changes to its curtailable service tariff. Those changes, as set forth in the unanimous provisions of the Partial Settlement and Stipulation shorten the notice of interruption, increase the maximum number of hours of interruption, and increase the potential frequency of interruptions. KU believes

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<sup>131</sup> Case No. 2001-00323, Joint Application of Louisville Gas and Electric Company, Metro Human Needs Alliance, People Organized and Working for Energy Reform, Kentucky Association for Community Action, and Jefferson County Government for the Establishment of a Home Energy Assistance Program, final Order dated December 27, 2001; rehearing Order dated January 29, 2002.

that due to these changes some customers may, for operational reasons, want to switch from curtailable service to firm service. Consequently, KU is requesting authority to waive the 3-year notice required for a customer to terminate service under the tariff. This authority will permit KU to give the seven customers currently on this tariff the option to terminate service immediately, rather than be required to continue taking curtailable service for an additional 3 years.

Based on the significance of the changes in the terms and conditions of curtailable service, the Commission finds that KU's request to waive the 3-year notice of termination is reasonable. However, it is impractical for KU and a curtailable customer to switch rate schedules either immediately or on the effective date of the revised curtailable service tariff. Therefore, KU will be authorized to contact curtailable customers immediately upon issuance of this Order and inform them that they have a one-time opportunity to waive the 3-year notice of termination. Those customers will have until July 31, 2004 to notify KU if they elect to terminate curtailable service and switch to a firm service tariff.

#### Midwest Independent Transmission System Operator, Inc. ("MISO") Exit Fee

KU is currently a member of the Midwest Independent Transmission System Operator, Inc. ("MISO"), a regional transmission organization. In Case No. 2003-00266,<sup>132</sup> KU has requested authority to exit MISO and recover any exit fee from ratepayers. In this rate case, KU and the AG have addressed how the exit fee should be accounted for and what rate-making treatment is appropriate in the event the

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<sup>132</sup> Case No. 2003-00266, Investigation Into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator, Inc.

Commission authorizes KU to exit MISO. However, since the Commission has not yet decided whether KU should exit MISO, issues related to the accounting and rate-making treatment for an exit fee are premature. These issues will be addressed, if necessary in Case No. 2003-00266.

### The “Global Settlement”

On October 31, 2001, LG&E, KU, the AG, and KIUC filed a unanimous settlement agreement that was intended to operate as a full and complete resolution of five cases then pending before the Commission.<sup>133</sup> This settlement agreement, referred to as the “Global Settlement,” was approved by Commission Order on December 3, 2001. Several of the provisions of the Global Settlement directly affected adjustments proposed by KU in this rate case.

Article 1.0 of the Global Settlement provided that KU would perform a new depreciation study no later than calendar year 2004 based upon utility plant in service as of December 31, 2003 and when completed the new study would be filed with the Commission. KU did perform a new depreciation study which was filed in this rate case, but it was based on utility plant in service as of December 31, 2002. KU contended that this depreciation study was in compliance with the Global Settlement, arguing that, “the

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<sup>133</sup> The five cases were Case No. 2001-00054, The Annual Earnings Sharing Mechanism Filing of Louisville Gas and Electric Company; Case No. 2001-00055, The Annual Earnings Sharing Mechanism Filing of Kentucky Utilities Company; Case No. 2001-00140, Application of Kentucky Utilities Company for an Order Approving Revised Depreciation Rates; Case No. 2001-00141, Application of Louisville Gas and Electric Company for an Order Approving Revised Depreciation Rates; and Case No. 2001-00169, 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 Calculations.

defining limit on the previous commitment was the timing of another study (e.g., ‘no later than calendar year 2004’),” and that it “did not believe the plant-in-service date was intended to be the defining limit ....”<sup>134</sup>

Article 2.0 of the Global Settlement addressed issues related to the KU’s VDT workforce reduction and authorized KU to establish a regulatory asset which would include the expenses incurred to achieve the savings associated with the VDT workforce reduction. At the time the Global Settlement was approved, the regulatory asset was to be established based on estimated expenses. Later, the regulatory asset was to be adjusted to reflect actual VDT-related expenses as of December 31, 2001. However, for rate-making purposes, the actual expenses could not exceed the preliminary estimated expenses. During this case, KU disclosed that it had increased the balance in the VDT regulatory asset by \$1,169,056 for expenses incurred after December 31, 2001.<sup>135</sup> KU contended that recording these additional expenses as part of the regulatory asset was consistent with the recording of the estimated expenses permitted when the Commission approved the Global Settlement. KU argued that it was in compliance with the terms of the Global Settlement because these additional expenses did not cause the regulatory asset balance to exceed the settlement amount of the expenses. KU stated that while it did record the additional expenses as part of the regulatory asset, it did not make an adjustment to the net savings returned to

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<sup>134</sup> Response to the Commission Staff’s Third Data Request dated March 1, 2004, Item 23.

<sup>135</sup> KU recorded these additional expenses in the regulatory asset account between December 2002 and July 2003. See Response to the Commission Staff’s Third Data Request dated March 1, 2004, Item 17(b)(1).

ratepayers through the VDT surcredit.<sup>136</sup> KU did include adjustments in this rate case to revise the VDT amortization expense to correspond with the regulatory asset as it was recorded on December 31, 2001.

The Commission is concerned by KU's interpretation of provisions of the Global Settlement as reflected in this rate case. Contrary to KU's interpretation of the Global Settlement provision concerning the timing of the next depreciation study, it is clear that the calendar year 2004 deadline for filing and the utilization of utility plant in service as of December 31, 2003 are both controlling dates. Concerning the VDT regulatory asset, the Global Settlement did not contain any provisions that authorized KU to continue to increase the balance of the regulatory asset established on December 31, 2001. The fact that the additional expenses did not exceed the originally estimated expenses does not justify KU's accounting.

The Commission notes that, in Case No. 2002-00072,<sup>137</sup> KU previously misinterpreted provisions of the Global Settlement. In that case the Commission found that the Global Settlement did not authorize KU to adjust its monthly capitalization to retroactively reflect the VDT workforce reduction, and KU was required to recalculate its ESM annual filing for calendar year 2001.

The Commission will not require KU to submit a new depreciation study in compliance with the dates established in the Global Settlement since we are accepting KU's proposal to prepare a new depreciation study no later than June 30, 2007. In

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<sup>136</sup> Response to the Commission Staff's Fourth Data Request dated April 14, 2004, Item 3.

<sup>137</sup> Case No. 2001-00072, Kentucky Utilities Company's Annual Earnings Sharing Mechanism Filing for Calendar Year 2001.

addition, we will not require KU to remove the post-2001 additions to its VDT regulatory asset since the amortization expenses that were included for rate-making purposes were consistent with the provisions of the Global Settlement and the regulatory asset is not included in rate base. Consequently, ratepayers have not been harmed by KU's actions.

The Commission is concerned, however, that on three separate occasions KU has incorrectly interpreted and deviated from significant provisions of the Global Settlement. The unanimous provisions of the Partial Settlement and Stipulation approved herein are significantly more encompassing and complex than the provisions contained in the Global Settlement. The Commission cautions KU that, absent prior Commission approval, there should be no deviations from either the unanimous provisions of that document or KU's timetable for filing a new depreciation study.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by KU in its application are denied.
2. The ESM Settlement, attached hereto as Appendix B, is approved in its entirety and KU's ESM is terminated except for continued collections for 2003 operations.
3. The unanimous provisions in the Partial Settlement and Stipulation, attached hereto as Appendix C, are approved in its entirety.
4. The rates and charges in KU's Exhibit 1, set forth in Appendix A hereto, are the fair, just, and reasonable rates for KU to charge for electric service, and these rates are approved for service rendered on and after July 1, 2004.

5. KU shall, within 20 days of the date of this Order, file its revised tariff sheets setting out the rates and tariff changes approved herein.

6. Within one year from the date of this Order, KU shall file with the Commission a plan developed and implemented that eliminates the underfunding of its pension and post-retirement plans. KU shall also file progress reports on its progress to eliminate the underfunding of the pension and post-retirement plans as described within this Order.

7. KU shall submit for Commission approval the programmatic details associated with its HEA program no later than August 1, 2004.

8. KU shall not bill its residential customers 10 cents per meter per month for the HEA until authorized to do so upon Commission approval of the HEA programmatic details.

9. KU's request for a one-time waiver through July 31, 2004 of the 3-year customer notice to terminate curtailable service is granted.

Done at Frankfort, Kentucky, this 30<sup>th</sup> day of June, 2004.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a horizontal line at the bottom, positioned above the text 'Executive Director'.

Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2003-00434 DATED June 30, 2004

The following rates and charges are prescribed for the customers in the area served by Kentucky Utilities Company, consistent with KU Exhibit 1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE RS  
RESIDENTIAL SERVICE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$5.00    |
| Energy Charge per kWh:     | \$ .04404 |

SCHEDULE A.E.S.  
ALL ELECTRIC SCHOOL

|                        |           |
|------------------------|-----------|
| Energy Charge per kWh: | \$ .04227 |
|------------------------|-----------|

SCHEDULE GS  
GENERAL SERVICE RATE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$10.00   |
| Energy Charge per kWh:     | \$ .05327 |

SCHEDULE LP  
LARGE POWER SERVICE PRIMARY VOLTAGE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$75.00   |
| Demand Charge per kW:      | \$ 6.26   |
| Energy Charge per kWh:     | \$ .02200 |

SCHEDULE LP  
LARGE POWER SERVICE SECONDARY VOLTAGE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$75.00   |
| Demand Charge per kW:      | \$ 6.65   |
| Energy Charge per kWh:     | \$ .02200 |

SCHEDULE LP  
LARGE POWER SERVICE TRANSMISSION VOLTAGE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$75.00   |
| Demand Charge per kW:      | \$ 5.92   |
| Energy Charge per kWh:     | \$ .02200 |

SCHEDULE LCI-TOD  
LARGE COMMERCIAL/INDUSTRIAL TIME-OF-DAY RATE PRIMARY VOLTAGE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$120.00  |
| Demand Charge per kW:      |           |
| On-Peak Demand             | \$ 4.58   |
| Off-Peak Demand            | \$ .73    |
| Energy Charge per kWh:     | \$ .02200 |

SCHEDULE LCI-TOD  
LARGE COMMERCIAL/INDUSTRIAL TIME-OF-DAY RATE TRANSMISSION  
VOLTAGE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$120.00  |
| Demand Charge per kW:      |           |
| On-Peak Demand             | \$ 4.39   |
| Off-Peak Demand            | \$ .73    |
| Energy Charge per kWh:     | \$ .02200 |

SCHEDULE MP  
COAL MINING POWER SERVICE PRIMARY VOLTAGE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$75.00   |
| Demand Charge per kW:      | \$ 4.69   |
| Energy Charge per kWh:     | \$ .02400 |

SCHEDULE MP  
COAL MINING POWER SERVICE TRANSMISSION VOLTAGE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$75.00   |
| Demand Charge per kW:      | \$ 4.57   |
| Energy Charge per kWh:     | \$ .02400 |

SCHEDULE LMP-TOD  
LARGE MINE POWER TIME-OF-DAY RATE PRIMARY VOLTAGE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$120.00  |
| Demand Charge per kW:      |           |
| On-Peak Demand             | \$ 5.39   |
| Off-Peak Demand            | \$ .73    |
| Energy Charge per kWh:     | \$ .02000 |

SCHEDULE LMP-TOD  
LARGE MINE POWER TIME-OF-DAY RATE TRANSMISSION VOLTAGE

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$120.00  |
| Demand Charge per kW:      |           |
| On-Peak Demand             | \$ 4.85   |
| Off-Peak Demand            | \$ .73    |
| Energy Charge per kWh:     | \$ .02000 |

SCHEDULE LI-TOD  
LARGE INDUSTRIAL TIME-OF-DAY RATE PRIMARY VOLTAGE

|                                 |          |
|---------------------------------|----------|
| Customer Charge per Month:      | \$120.00 |
| Demand Charge:                  |          |
| Standard Load Charge per KVA    |          |
| On-Peak                         | \$ 4.58  |
| Off-Peak                        | \$ .73   |
| Fluctuating Load Charge per KVA |          |
| On-Peak                         | \$ 2.29  |
| Off-Peak                        | \$ .37   |
| Energy Charge per kWh:          | \$ .0220 |

SCHEDULE LI-TOD  
LARGE INDUSTRIAL TIME-OF-DAY RATE TRANSMISSION VOLTAGE

|                                 |          |
|---------------------------------|----------|
| Customer Charge per Month:      | \$120.00 |
| Demand Charge:                  |          |
| Standard Load Charge per KVA    |          |
| On-Peak                         | \$ 4.39  |
| Off-Peak                        | \$ .73   |
| Fluctuating Load Charge per KVA |          |
| On-Peak                         | \$ 2.20  |
| Off-Peak                        | \$ .37   |
| Energy Charge per kWh:          | \$ .0220 |

SCHEDULE VFD  
VOLUNTEER FIRE DEPARTMENT

|                            |           |
|----------------------------|-----------|
| Customer Charge per Month: | \$ 5.00   |
| Energy Charge per kWh:     | \$ .04404 |

SCHEDULE ST. LT.  
STREET LIGHTING SERVICE

|  |                 |                   |
|--|-----------------|-------------------|
| Rate per Light per Month: (Lumens Approximate) |                 |                   |
|  | <u>Standard</u> | <u>Ornamental</u> |
| <u>Incandescent System:</u>                    |                 |                   |
| 1,000 Lumens                                   | \$ 2.26         | \$ 2.91           |
| 2,500 Lumens                                   | \$ 2.75         | \$ 3.55           |
| 4,000 Lumens                                   | \$ 3.94         | \$ 4.88           |

|                              |          |          |
|------------------------------|----------|----------|
| 6,000 Lumens                 | \$ 5.24  | \$ 6.29  |
| <u>Mercury Vapor:</u>        |          |          |
| 7,000 Lumens                 | \$ 6.63  | \$ 8.89  |
| 10,000 Lumens                | \$ 7.64  | \$ 9.65  |
| 20,000 Lumens                | \$ 8.98  | \$ 10.59 |
| <u>High Pressure Sodium:</u> |          |          |
| 4,000 Lumens                 | \$ 5.00  | \$ 7.62  |
| 5,800 Lumens                 | \$ 5.43  | \$ 8.04  |
| 9,500 Lumens                 | \$ 6.11  | \$ 8.92  |
| 22,000 Lumens                | \$ 9.02  | \$ 11.81 |
| 50,000 Lumens                | \$ 14.55 | \$ 17.34 |

SCHEDULE DEC. ST. LT.  
STREET LIGHTING SERVICE

Rate per Light per Month: (Lumens Approximate)

Decorative Street Lighting Service:

|                                   |  |         |
|-----------------------------------|--|---------|
| <u>Acorn with Decorative Pole</u> |  |         |
| 4,000 Lumens                      |  | \$10.40 |
| 5,800 Lumens                      |  | \$10.94 |
| 9,500 Lumens                      |  | \$11.61 |
| <u>Acorn with Historic Pole</u>   |  |         |
| 4,000 Lumens                      |  | \$16.32 |
| 5,800 Lumens                      |  | \$16.85 |
| 9,500 Lumens                      |  | \$17.53 |
| <u>Colonial</u>                   |  |         |
| 4,000 Lumens                      |  | \$ 6.86 |
| 5,800 Lumens                      |  | \$ 7.30 |
| 9,500 Lumens                      |  | \$ 7.90 |
| <u>Coach</u>                      |  |         |
| 5,800 Lumens                      |  | \$25.07 |
| 9,500 Lumens                      |  | \$25.73 |
| <u>Contemporary</u>               |  |         |
| 5,800 Lumens                      |  | \$12.60 |
| 9,500 Lumens                      |  | \$15.01 |
| 22,500 Lumens                     |  | \$17.40 |
| 50,000 Lumens                     |  | \$22.53 |
| <u>Gran Ville</u>                 |  |         |
| 16,000 Lumens                     |  | \$38.28 |
| <u>Gran Ville Accessories:</u>    |  |         |
| Single Crossarm Bracket           |  | \$16.28 |
| Twin Crossarm Bracket             |  | \$18.12 |
| 24 Inch Banner Arm                |  | \$ 2.82 |

|                             |         |
|-----------------------------|---------|
| 18 Inch Banner Arm          | \$ 2.60 |
| Flagpole Holder             | \$ 1.20 |
| Post-Mounted Receptacle     | \$16.90 |
| Base-Mounted Receptacle     | \$16.31 |
| Additional Receptacles      | \$ 2.31 |
| Planter                     | \$ 3.91 |
| 24 Inch Clamp on banner arm | \$ 3.90 |

SCHEDULE P.O. LT.  
PRIVATE OUTDOOR LIGHTING SERVICE

|   |         |
|---|---------|
| Standard (Served Overhead)                      |         |
| Mercury Vapor                                   |         |
| 7,000 Lumens                                    | \$ 7.61 |
| 20,000 Lumens                                   | \$ 8.98 |
| High Pressure Sodium                            |         |
| 5,800 Lumens                                    | \$ 4.33 |
| 9,500 Lumens                                    | \$ 4.94 |
| 22,500 Lumens                                   | \$ 9.02 |
| 50,000 Lumens                                   | \$14.55 |
| Directional (Served Overhead)                   |         |
| High Pressure Sodium                            |         |
| 9,500 Lumens                                    | \$ 5.98 |
| 22,500 Lumens                                   | \$ 8.47 |
| 50,000 Lumens                                   | \$12.90 |
| Metal Halide Commercial and Industrial Lighting |         |
| Directional Fixture                             |         |
| 12,000 Lumens                                   | \$ 8.83 |
| 32,000 Lumens                                   | \$12.24 |
| 107,800 Lumens                                  | \$25.28 |
| Directional Fixture with Wood Pole              |         |
| 12,000 Lumens                                   | \$10.79 |
| 32,000 Lumens                                   | \$14.21 |
| 107,800 Lumens                                  | \$28.01 |
| Directional Fixture with Metal Pole             |         |
| 12,000 Lumens                                   | \$17.20 |
| 32,000 Lumens                                   | \$20.61 |
| 107,800 Lumens                                  | \$33.65 |
| Contemporary Fixture Only                       |         |
| 12,000 Lumens                                   | \$ 9.92 |
| 32,000 Lumens                                   | \$13.78 |
| 107,800 Lumens                                  | \$27.82 |

|                                      |         |
|--------------------------------------|---------|
| Contemporary Fixture with Metal Pole |         |
| 12,000 Lumens                        | \$18.30 |
| 32,000 Lumens                        | \$22.14 |
| 107,800 Lumens                       | \$36.19 |
| Decorative HPS (Served Underground)  |         |
| Acorn with Decorative Pole           |         |
| 4,000 Lumens                         | \$10.40 |
| 5,800 Lumens                         | \$10.94 |
| 9,500 Lumens                         | \$11.62 |
| Acorn with Historic Pole             |         |
| 4,000 Lumens                         | \$16.32 |
| 5,800 Lumens                         | \$16.85 |
| 9,500 Lumens                         | \$17.54 |
| Colonial                             |         |
| 4,000 Lumens                         | \$ 6.86 |
| 5,800 Lumens                         | \$ 7.30 |
| 9,500 Lumens                         | \$ 7.90 |
| Coach                                |         |
| 5,800 Lumens                         | \$25.07 |
| 9,500 Lumens                         | \$25.73 |
| Contemporary                         |         |
| 5,800 Lumens                         | \$12.60 |
| 9,500 Lumens                         | \$15.01 |
| 22,500 Lumens                        | \$17.40 |
| 50,000 Lumens                        | \$22.53 |
| Gran Ville                           |         |
| 16,000 Lumens                        | \$38.28 |

RATE CSR 1  
CURTAINABLE SERVICE RIDER 1

|   |                     |                |
|---|---------------------|----------------|
|   | <u>Transmission</u> | <u>Primary</u> |
| Demand Credit per kW per Month            | \$ 3.10             | \$ 3.20        |
| Non-compliance Charge<br>Per kW Per Month | \$ 16.00            | \$ 16.00       |

RATE CSR 2  
CURTAILABLE SERVICE RIDER 2

|   | <u>Transmission</u> | <u>Primary</u> |
|---|---------------------|----------------|
| Demand Credit per kW per Month            | \$ 4.09             | \$ 4.19        |
| Non-compliance Charge<br>Per kW Per Month | \$ 16.00            | \$ 16.00       |

RATE CSR 3  
CURTAILABLE SERVICE RIDER 3

|   | <u>Transmission</u> | <u>Primary</u> |
|---|---------------------|----------------|
| Demand Credit per kW per Month            | \$ 3.10             | \$ 3.20        |
| Non-compliance Charge<br>Per kW Per Month | \$ 16.00            | \$ 16.00       |

EXPERIMENTAL LOAD REDUCTION INCENTIVE RIDER

Rate: Up to \$0.30 per kWh

EXPERIMENTAL SMALL TIME-OF-DAY SERVICE RATE

|                                       |           |
|---------------------------------------|-----------|
| Customer Charge per Month:            | \$90.00   |
| Demand Charge:                        |           |
| Secondary Service per kW per Month    | \$ 6.65   |
| Primary Service per kW per Month      | \$ 6.26   |
| Transmission Service per kW per Month | \$ 5.92   |
| Energy Charge:                        |           |
| On-Peak Energy per kWh                | \$ .02800 |
| Off-Peak Energy per kWh               | \$ .01500 |

STANDARD RIDER FOR EXCESS FACILITIES

|                                    |      |
|------------------------------------|------|
| Charge for distribution facilities |      |
| Carrying Charge                    | .93% |
| Operating Expenses                 | .56% |



STANDARD RIDER FOR REDUNDANT CAPACITY CHARGE

Capacity Reservation Charge Per kW Per Month

Secondary Distribution \$ .80

Primary Distribution \$ .63

RETURNED CHECK CHARGE

Rate: \$ 9.00

METER TEST CHARGE

Rate: \$ 31.40

DISCONNECT AND RECONNECT SERVICE CHARGE

Rate: \$ 20.00

SPECIAL CONTRACT  
WESTVACO

Demand Charge Per kW Per Month:

Non-Interruptible Demand \$ 3.98

Interruptible Demand \$ 1.95

Energy Charge Per kWh: \$ .02200

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2003-00434 DATED June 30, 2004

ESM SETTLEMENT AGREEMENT

Dated May 12, 2004

## SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 12th day of May 2004, by and between Louisville Gas and Electric Company (“LG&E”); Kentucky Utilities Company (“KU”) (LG&E and KU are hereafter collectively referenced as “the Utilities”); Commonwealth of Kentucky, ex. rel. Gregory Stumbo, Attorney General, by and through the Office of Rate Intervention (“AG”); Kentucky Industrial Utility Customers, Inc. (“KIUC”) and the interests of its participating members as represented by and **through** the KIUC; Commonwealth of Kentucky, Environmental and Public Protection Cabinet, Division of Energy (“KDOE”); the United States Department of Defense (“DOD”); The Kroger Company (“Kroger”); Kentucky Association for Community Action, Inc. (“KACA”); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (“CAC”); Metro Human Needs Alliance (“MHNA”); People Organized and Working for Energy Reform (“POWER”); Lexington-Fayette Urban County Government (“LFUCG”); and North American Stainless, L.P. (“NAS”) in the proceedings involving LG&E and KU which are the subject of this Settlement Agreement, *as* set forth below.

### **WITNESSETR:**

**WHEREAS**, LG&E filed on December 29, 2003 with the Kentucky Public Service Commission (“Commission”) its Application for Authority to Adjust Rates, *In Re the Matter of: An Adjustment of the Gas and Electric Rates. Terms and Conditions of Louisville Gas and Electric Comuanv*, and the Commission has established Case No. 2003-00433 to review LG&E’s base rate application;

**WHEREAS**, KU filed on December 29, 2003 with the Commission its Application for Authority to Adjust Rates, *In Re the Matter of: An Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Comuanv*, and the Commission has established Case No. 2003-00434 to review KU’s base rate application;

**WHEREAS**, the AG, KIUC, KDOE and Kroger have been granted intervention by the Commission in both of the forgoing proceedings; MHNA, POWER, DOD and KACA have been granted intervention by the Commission in Case No. 2003-00433 only; and LFUCG, NAS and CAC have been granted intervention by the Commission in Case No. 2003-00434 only;

**WHEREAS**, on March 31, 2004, the Commission granted consolidation of Case No. 2003-00433 with the case captioned *In Re the Matter of An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Louisville Gas and Electric Company*, Case No. 2003-00335;

**WHEREAS**, on March 31, 2004, the Commission granted consolidation of Case No. 2003-00434 with the case entitled *In Re the Matter of: An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Kentucky Utilities Company*, Case No. 2003-00334;

**WHEREAS**, the AG and KIUC have been granted intervention by the Commission in both Case Nos. 2003-00334 and 2003-00335; and LFUCG has been granted intervention by the Commission in Case No. 2003-00334 only;

**WHEREAS**, LG&E's current Earnings Sharing Mechanism tariff was effective on January 2, 2003 pursuant to the Commission's Orders of December 20, 2002 and January 14, 2003 in Case No 2002-00473 (LG&E); and KU's current ESM tariff was effective on January 2, 2003 pursuant to the Commission's Orders of December 20, 2002 and January 14, 2003 in Case No. 2002-00472 (collectively the "ESM tariffs");

**WHEREAS**, on March 1, 2004 LG&E filed its Annual Earnings Sharing Mechanism Filing for Calendar Year 2003 in Case No. 2004-00069;

**WHEREAS**, on March 1, 2004 KU filed its Annual Earnings Sharing Mechanism Filing for Calendar Year 2003 in Case No. 2004-00070;

**WHEREAS**, a prehearing conference, attended in person or by teleconference by representatives of the AG, KIUC, KDOE, DOD, Kroger, KACA, CAC, MHNA, POWER, LFUCG, NAS, the Commission Staff and the Utilities, took place on April 28, 2004 at the offices of the Commission during which a number of procedural and substantive issues were discussed, including potential settlement of certain issues pending before the Commission in Case Nos. 2003-00433 and 2003-00434, Case Nos. 2003-00334 and 2003-00335 (the “ESM renewal proceedings”), and Case Nos. 2004-00069 and 2004-00070 (the “2003 ESM proceedings”); and

**WHEREAS**, the signatories hereto desire to settle certain issues pending before the Commission in the rate proceedings, the ESM renewal proceedings and the 2003 ESM proceedings.

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

**ARTICLE I. Earnings Sharing Mechanism (“ESM”) Recovery and Discontinuation**

**SECTION 1.1** Effective July 1, 2004, the Earnings Sharing Mechanism, except as set forth in Sections 1.2 through 1.4 below, shall be discontinued,

**SECTION 1.2** LG&E has filed with the Commission, in Case No. 2004-0069, the results for the 2003 ESM Reporting Period and the corresponding ESM billing factor pursuant to its ESM tariff. Beginning April 1, 2004, LG&E began billing its 2003 ESM factor in customer bills. The parties recommend the Commission issue an order in Case No.

2004-0069 approving the 2003 ESM factor as filed and authorizing LG&E to continue billing its ESM factor through March 31, 2005 and collect and retain all the revenues derived from the billing of 2003 ESM factor. Specifically, for the period of April 1, 2004 through April 30, 2004, LG&E should be allowed to bill, collect and retain amounts permitted under its ESM tariff with an ESM factor of 2.282%. And, specifically, for the period of May 1, 2004 through March 31, 2005, LG&E should be allowed to bill, collect and retain amounts permitted under its ESM tariff with an ESM factor of 2.360%.

### **SECTION 1.3**

KU has filed with the Commission, in Case No. 2004-0070, the results for the 2003 ESM Reporting Period and the corresponding ESM billing factor pursuant to its ESM tariff. Beginning April 1, 2004, KU began billing its 2003 ESM factor in customer bills. The parties recommend the Commission issue an order in Case No. 2004-0070 approving the 2003 ESM factor as filed and authorizing KU to continue billing its ESM factor through March 31, 2005 and collect **and** retain all the revenues derived from the billing of 2003 ESM factor. Specifically, for the period of April 1, 2004 through April 30, 2004, KU should be allowed to bill, collect and retain amounts permitted under its ESM tariff with **an** ESM factor of 2.367%. And, specifically, for the period of May 1, 2004 through March 31, 2005, KU should be allowed to bill, collect and retain

amounts permitted under its ESM tariff with an ESM factor of 2.330%.

**SECTION 1.4** No later than May 2005, the Utilities shall perform a final balancing adjustment to reconcile any over- or under-collection of the ESM revenues for the current ESM billing period, April 2004 through March 2005.

**SECTION 1.5** The Utilities agree to waive their rights to make any billing or seek any collection under their respective ESM tariffs for the six-month period ending June 30, 2004, excluding the operation of the ESM mechanism as provided in Sections 1.2 through 1.4 above.

**ARTICLE II. Approval of Settlement Agreement**

**SECTION 2.1** 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 May \_\_\_\_\_, 2004.

**SECTION 2.2** 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.

**SECTION 2.3** 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 application or operation of the Utilities' respective ESMs in Case Nos. 2004-0069, 2004-070, 2003-00334 and 2003-00335, and all such claims or demands shall be deemed settled under or compromised, released and discharged by this Settlement Agreement.

**SECTION 2.4**

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 matters 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**

Should the Settlement Agreement be voided or vacated 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 agreement.



**ARTICLE III.        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 heirs, 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 terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

**SECTION 3.6** The provisions of this Settlement Agreement shall not bar a party from seeking, or the Commission from reinstating, an ESM at some future time, in order to accomplish reasonable and valid regulatory objectives.

**SECTION 3.7** 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.

**SECTION 3.8** 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 3.9** This Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission.

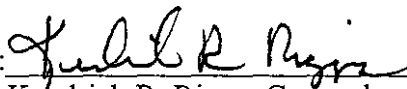
**SECTION 3.10** This Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party.

**SECTION 3.11** This Settlement Agreement may be executed in multiple counterparts.

**IN WITNESS WHEREOF**, *the* parties hereto have hereunto affixed their signatures.

Louisville Gas and Electric Company  
and Kentucky Utilities Company

HAVE READ AND AGREED:

By:   
Kendrick R. Riggs, Counsel

-and-

By:   
Dorothy E. O'Brien, Counsel

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


HAVE READ AND AGREED:

By: \_\_\_\_\_

  
Elizabeth E. Blackford, Counsel

Kentucky Industrial Utility Customers, Inc.

HAVE READ AND AGREED:

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

Commonwealth of Kentucky,  
Environmental and Public Protection Cabinet,  
Division of Energy

HAVE READ AND AGREED:

1

By:

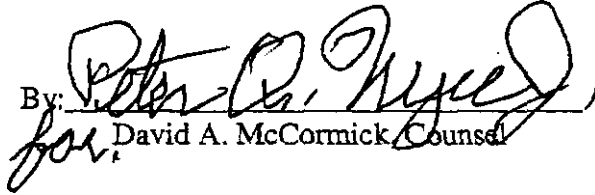


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Iris Skidmore, Counsel

United **States** Department of Defense

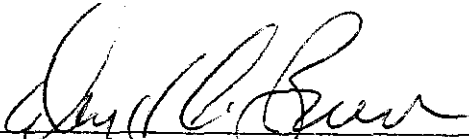
HAVE SEEN AND AGREED:

By:   
for David A. McCormick, Counsel

cc

The Kroger Company

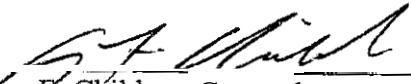
HAVE READ AND AGREED:

By:   
David C. Brown, Counsel



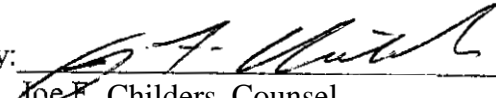
Kentucky Association for Community  
Action, Inc.

HAVE READ AND AGREED:

By:   
Joe F. Childers, Counsel

Community Action Council for  
Lexington-Fayette, Bourbon, Harrison  
and Nicholas Counties, Inc.

HAVE READ AND AGREED:

By:   
\_\_\_\_\_  
Joe F. Childers, Counsel

Metro Human Needs Alliance

HAVE READ AND AGREED:

By: *Lisa Kilkelly*  
Lisa Kilkelly, Counsel

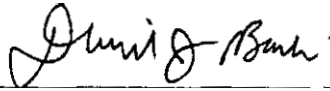
People Organized and Working for Energy Reform

HAVE READ AND AGREED:

By: *Lisa Kilkelly*  
Lisa Kilkelly, Counsel

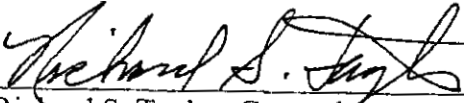
Lexington-Fayette Urban County Government

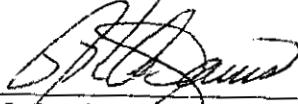
HAVE READ AND AGREED:


By:   
David J. Barberie, Counsel

North American Stainless, L.P.

HAVE READ AND AGREED:

By:   
Richard S. Taylor, Counsel

By:   
Nathaniel K. Adams, General Counsel

By:   
Kimberly McCann, Counsel

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2003-00434 DATED June 30, 2004

PARTIAL SETTLEMENT AND STIPULATION

Dated May 12, 2004

**PARTIAL SETTLEMENT AGREEMENT, STIPULATION AND RECOMMENDATION**

This Partial Settlement Agreement, Stipulation and Recommendation (“Settlement Agreement”) is entered into this 12<sup>th</sup> day of May 2004, by and between Louisville Gas and Electric Company (“LG&E”); Kentucky Utilities Company (“KU”) (LG&E and KU are hereafter collectively referenced as “the Utilities”); Commonwealth of Kentucky, ex. rel. Gregory Stumbo, Attorney General, by and through the Office of Rate Intervention (“AG”); Kentucky Industrial Utility Customers, Inc. (“KIUC”) and the interests of its participating members as represented by and through the KIUC; Commonwealth of Kentucky, Environmental and Public Protection Cabinet, Division of Energy (“KDOE”); the United States Department of Defense (“DOD”); The Kroger Co.(“Kroger”); Kentucky Association for Community Action, Inc. (“KACA”); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (“CAC”); Metro Human Needs Alliance (“MHNA”); People Organized and Working for Energy Reform (“POWER”); Lexington-Fayette Urban County Government (“LFUCG”); and North American Stainless, L.P. (“NAS”) in the proceedings involving LG&E and KU which are the subject of this Settlement Agreement, as set forth below.

**W I T N E S S E T H:**

**WHEREAS**, LG&E **filed** on December 29, 2003 with the Kentucky Public Service Commission (“Commission”) its Application for Authority to Adjust Rates, *In Re the Matter of An Adjustment of the Gas and Electric Rates, Terms and Conditions of Louisville Gas and Electric Company*, and the Commission has established Case No. 2003-00433 to review LG&E’s base rate application;

**WHEREAS**, KU filed on December 29, 2003 with the Commission its Application for Authority to Adjust Rates, *In Re the Matter of: An Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Company*, and the Commission has established Case No. 2003-



00434 to review KU's base rate application (Case Nos. 2003-00433 and 2003-00434 are hereafter collectively referenced as the "rate proceedings");

**WHEREAS**, the AG, KIUC, KDOE, KACA and Kroger have been granted intervention by the Commission in both of the rate proceedings; MHNA, POWER and DOD have been granted intervention by the Commission in Case No. 2003-00433 only; and LFUCG, NAS and CAC have been granted intervention by the Commission in Case No. 2003-00434 only;

**WHEREAS**, on March 31, 2004, the Commission granted consolidation of Case Nos. 2003-00433 and 2003-00434 with the case captioned *In the Matter of: Tariff Filing of Kentucky Utilities Company and Louisville Gas and Electric Company for Non-Conforming Load Customers*, Case No. 2003-00396 (which case had previously been consolidated with *In the Matter of North American Stainless v. Kentucky Utilities Company*, Case No. 2003-00376).

**WHEREAS**, a prehearing conference, attended in person or by teleconference by representatives of the AG, KIUC, KDOE, DOD, Kroger, KACA, CAC, MHNA, POWER, LFUCG, NAS, the Commission Staff and the Utilities, took place on April 28, 2004 at the offices of the Commission during which a number of procedural and substantive issues were discussed, including potential settlement of certain issues pending before the Commission in the rate proceedings;

**WHEREAS**, on May 4, 2004, the hearing in the rate proceedings began and was adjourned for the purpose of exploring the possibility of settlement of the rate proceedings or stipulation of issues therein, which discussions were attended in person by representatives of the AG, KIUC, KDOE, DOD, Kroger, KACA, CAC, MHNA, POWER, LFIJCG, NAS, the Commission Staff and the Utilities;

**WHEREAS**, all of the signatories hereto desire to settle all the issues pending before the Commission in the rate proceedings, except for the AG, who is unwilling to settle the issue of the revenue requirements of LG&E's electric operations and KU's operations;

**WHEREAS**, it is understood by all signatories hereto that this Settlement Agreement is subject to the approval of the Commission, insofar as it constitutes an agreement by all parties to the rate proceedings for settlement, and does not represent agreement on any specific theory supporting the appropriateness of any proposed or recommended adjustments to the Utilities' rates, terms and conditions;

**WHEREAS**, it is understood by all signatories hereto that, insofar as this Settlement Agreement does not recite the agreement of the AG to settle the issue of the revenue requirements of the LG&E electric operations and the KU operations, it is a stipulation among the signatories hereto other than the AG as to the foregoing revenue requirement issues, pursuant to 807 KAR 5:001, Section 4(6);

**WHEREAS**, the signatories have spent many hours, over several days, in order to reach the stipulations and agreements which form the basis of this Settlement Agreement;

**WHEREAS**, all of the signatories, who represent diverse interests and divergent viewpoints, agree that this Settlement Agreement, viewed in its entirety, is a fair, just and reasonable resolution of all the issues in the rate proceedings;

**WHEREAS**, the adoption of this Settlement Agreement will reduce the length of the hearing, simplify the briefing, and eliminate the possibility of, and any need for, rehearing on the issues stipulated and agreed to; and

**WHEREAS**, it is the position of the parties hereto that this Settlement Agreement is supported by sufficient and adequate data and information, and should be approved by the Commission.

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

**ARTICLE I. Revenue Requirement.**

Section 1.1. The signatories hereto, except the AG, stipulate that the following annual increases in revenues for LG&E electric operations and for KU operations, for purposes of determining the rates of LG&E and KU in the rate proceedings, are fair, just and reasonable for the signatories and for all customers of LG&E (electric) and KU:

Section 1.1.1. LG&E Electric Operations: \$43,400,000;

Section 1.1.2. KU Operations: \$46,100,000.

The signatories hereto, including the AG, agree that any annual increase in revenues for LG&E electric operations and for KU operations will be effective July 1, 2004.

Section 1.2. The signatories hereto, including the AG, agree that, effective July 1, 2004, the annual increases in revenues for LG&E gas operations of \$11,900,000, for purposes of determining the rates of LG&E gas operations in ~~the~~ rate proceedings, are fair, just and reasonable for the signatories and for all gas customers of LG&E.

**ARTICLE II. Allocation of Revenue.**

Section 2.1. The signatories hereto, including the AG, agree that the allocation of the annual revenue increase for LG&E electric operations, LG&E gas operations and for KU operations, as set forth on the allocation schedule designated Exhibit 1 hereto, in the rate proceedings is fair, just and reasonable for the signatories and for all customers of LG&E and KU. Notwithstanding the foregoing sentence, it is understood that the AG has only agreed that the percentages of the rate classes applicable to each LG&E electric operations rate class and each KU operations rate class on Exhibit 1 hereto are fair, just and reasonable and the AG has made no agreement of any other information relating to such LG&E electric operations or KU operations. All signatories hereto, including the AG, agree that the revenue increase to electric special contract customers set forth on Exhibit 1 hereto shall be allocated such that each special contract customer shall have the same percentage increase in rates.

Section 2.2. The signatories hereto, except the AG, agree that, effective July 1, 2004, the Utilities shall implement the electric rates set forth on Exhibit 1, attached hereto, which rates the signatories hereto, except the AG, stipulate are fair, just and reasonable and should be approved by the Commission. All signatories hereto, including the AG, agree that, effective July 1, 2004, the Utilities shall implement the gas rates set forth on Exhibit 1, attached hereto, which rates the signatories hereto agree are fair, just and reasonable and should be approved by the Commission.

Section 2.3. The signatories hereto, including the AG, agree that the Utilities shall establish a pilot time-of-day program for commercial customers with a monthly demand between 250 kW and 2,000 kW. The rates, terms and conditions of said program shall be as set forth in the Stipulation, dated May 4, 2004, between the Utilities and Kroger and filed in the rate proceedings. A copy of said Stipulation is attached hereto as Exhibit 2 and is incorporated by reference as though fully set forth herein. The forms of tariff designed to implement the Stipulation and the Settlement Agreement are attached hereto as Exhibit 2-A (LG&E) and Exhibit 2-B (KU).

**ARTICLE III. Treatment of Certain Specific Issues.**

Section 3.1. The signatories hereto, including the AG, agree that, after the date hereof, orders approving cost recovery of LG&E's and KU's environmental projects pursuant to KRS 278.183 shall be based upon an 11.0% return on common equity until directed by order of the Commission that a different rate of return shall be utilized.

Section 3.2. The signatories hereto, including the AG, agree that all of LG&E's gas purification and gas storage loss expenses shall be recovered as part of its Gas Supply Clause mechanism.

Section 3.3. The signatories hereto, except the AG, agree that the depreciation rates of the Utilities shall remain the same as approved in the orders of December 3, 2001, in Case Nos. 2001-140 and 2001-141, until the approval by the Commission of new depreciation rates for the Utilities, for which the

Utilities shall seek approval by filings made in their next general rate cases or June 30, 2007, whichever occurs earlier. The Utilities' depreciation filings shall be based on plant in service as of a date no earlier than one (1) year prior to such filing. From and after the effective date hereof, the Utilities shall maintain their books and records so that net salvage amounts may be identified.

Section 3.4. The signatories hereto, including the AG, agree that all costs associated with KU's 1994 environmental compliance plan (the "1994 Plan") approved in Case No. 93-465 and LG&E's 1995 environmental compliance plan (the "1995 Plan") approved in Case No. 94-332 shall be recovered in the Utilities' base rates, taking into account the Utilities' overall rate of return, and will be removed from the Utilities' monthly environmental surcharge filings, all in accordance with the details of such recovery set forth on Exhibit 3 hereto.

Section 3.5. ~~The~~ signatories hereto, including the AG, agree that, unless the Commission has already modified or terminated the **Value Delivery Team ("VDT")** surcredits in a subsequent rate case, six (6) months prior to the expiration of the sixty (60) month period in which the **VDT** surcredits are in operation, the Utilities shall file with the Commission a plan for the future ratemaking treatment of the **VDT** surcredits, the shareholder savings, the amortization of **VDT** costs and all other VDT-related issues. The **VDT** surcredit tariffs shall remain in effect following the expiration of

the sixtieth (60<sup>th</sup>) month until the Commission enters an order on the future ratemaking treatment of all VDT-related issues.

Section 3.6. The signatories hereto, including the **AG**, agree that LG&E shall establish a real time pricing (“RTP”) pilot program for LG&E’s electric customers. The term of the program shall be three (3) years. In each year, up to fifty (50) customers under Rate R and up to fifty (50) customers under Rate GS shall qualify for the program. During the second year of the program, LG&E shall propose to the Commission detailed plans, terms and conditions for the inclusion of customers under Rate LP in the program, such inclusion to take place during the second year of the program. Rate LP customers shall be eligible for participation in the program during the second and third years of the program in accordance with the Commission’s approval of LG&E’s proposal for inclusion of Rate LP customers. The customer-specific costs shall be recovered through a facilities charge incorporated into the applicable customer charges during the first six (6) months of the RTP pilot program. **After** six (6) months, the Utilities shall evaluate the level of participation in the pilot program and consider modifying the treatment of such customer-specific charges to encourage participation in the RTP pilot program. The non customer-specific costs of modifying LG&E’s customer billing system to bill customers under the RTP pilot program will be recovered pursuant to the RTP pilot program through a charge per kWh billed to customers taking service under Rates R, GS and LP in the same manner as the Demand-Side

Management (“DSM) Cost Recovery Component of LG&E’s DSM Cost Recovery Mechanism. After the end of the three year term, LG&E will evaluate the performance of the RTP pilot program for the following purposes, including, but not limited to: (i) to determine the impact of the pilot program on its affected customers; (ii) to determine the amount of revenue loss from the pilot program, if any; (iii) to evaluate customer acceptance of the real time pricing program and (iv) to evaluate the potential for implementing the RTP program as either a permanent demand-side management program or as a standard rate schedule. LG&E shall file a report with the Commission describing its findings within six months after the first three years of implementation of the RTP pilot program. The RTP pilot program shall remain in effect until the program is modified or terminated by order of the Commission.

Section 3.7. The signatories hereto, including the AG, agree that the notice period for an Operational Flow Order pursuant to LG&E’s Rate FT shall be twenty-four (**24**) hours.

Section 3.8. The signatories hereto, including the **AG**, agree that the miscellaneous charges of the Utilities shall be approved as proposed by the Utilities in the rate proceedings, except as follows: (i) the Disconnect-Reconnect Charge for LG&E electric customers, LG&E gas customers and KU electric customers shall be \$20.00; and (ii) the KU After-Hours Reconnect Charge shall be withdrawn.



Section 3.9. The signatories hereto, including the AG, agree that the following monthly customer charges shall be implemented: (i) LG&E electric residential customers, \$5.00 per month; (ii) LG&E gas residential customers, \$8.50 per month; (iii) KU residential customers, \$5.00 per month; (iv) LG&E GS electric single phase, \$10.00 per month; (v) LG&E GS electric three phase, \$15.00 per month; (vi) KU GS primary, \$10.00 per month; and (vii) KU GS secondary, \$10.00 per month. All other customer charges shall be implemented as proposed by the Utilities in their Applications filed on December 29, 2003 in the rate proceedings.

Section 3.10. The signatories hereto, including the **AG**, agree that, for both LG&E and KU, Rate GS shall be available to electric customers with connected loads up to 500 kW.

Section 3.11. The signatories hereto, including the AG, agree that LG&E shall withdraw its Standard Riders for Summer **Air** Conditioning Service for its gas operations, and that customers served thereunder shall take service under otherwise applicable rate schedules.

Section 3.12. The signatories hereto, including the AG, agree that LG&E shall not bill an additional customer charge to Rate GS customers formerly taking service under the Rider for Electric Space Heating Service under Rate GS.

Section 3.13. The signatories hereto, including the AG, agree that LG&E shall eliminate the seasonal rate structure for Rate RS and shall implement a non-seasonally differentiated rate structure for Rate RS. Nothing contained in

this Section shall preclude the Utilities from making a future proposal for a seasonal rate structure.

Section 3.14. The signatories hereto, including the AG, agree that, in conjunction with the AG, KACA, CAC, MHNA, and POWER, the Utilities will file plans for program administration with the Commission for year-round Home Energy Assistance (“HEA”) programs in both of their respective service territories based solely upon a ten-cent per residential meter **per** month charge (the “HEA charge”) for a period of three years. The HEA charge will be collected in the same manner as the DSM Cost Recovery Component of the Utilities’ DSM Cost Recovery mechanism. The HEA programs shall be operated by existing social service providers (“Providers”) with experience operating low-income energy assistance programs, who shall be entitled to recover actual operating expenses not to exceed ten percent (10%) of total HEA funds collected.

The signatories hereto, including the AG, agree that each HEA program will be subject to an outside independent annual audit conducted by an independent certified public accountant, in accordance with the Providers’ existing audit requirements. Each audit shall include a detailed accounting of all expenses associated with administration of the program, which shall be **filed** annually with the Commission.

The signatories hereto, including the AG, further agree that KU shall be permitted recovery of its one-time information technology implementation costs through its DSM mechanism.

Section 3.15. The signatories hereto, including the AG, agree that the HEA programs to be filed shall have a commencement date of October 1, 2004. Approval of this Settlement Agreement by the Commission shall constitute approval of the HEA parameters as proposed herein, subject to further review by the Commission of additional programmatic details. No money shall be distributed to the Providers pursuant to the HEA programs, or allocated pursuant to such programs, until such time as the Commission has issued final approval of the programmatic details.

Section 3.16. Within ninety days of the conclusion of the second year of the program, the Providers shall file with the Commission comprehensive program assessments to insure that the programs are meeting their respective established goals. Based upon those filings, and public hearings, if any, relating thereto, the Commission will then determine whether the HEA programs shall continue beyond three years and, if so, whether any modifications should be made to those programs.

Section 3.17. The signatories hereto, including the AG, who are parties to the respective Franklin Circuit Court actions hereby agree that upon approval of this Settlement Agreement by the Commission, they will jointly move the Franklin Circuit Court for the entry of an order dismissing the pending HEA and Pay As You Go ("PAYG") appeals, Civil Action Nos. 02-CI-00991 and 03-CI-00634, respectively.

Section 3.18. The signatories hereto, including the AG, agree that LG&E will phase out its PAYG program by limiting the program to existing customers **and** by

removing those meters from existing customers as requested. as meters fail, or as customers move off the system. However, LG&E reserves the right to completely terminate the program upon sixty days advance notice to the Commission. LG&E and KU further agree that they will not seek approval of new prepaid metering programs for a period of at least five years from the date hereof, and that, after five years, approval by the Commission will be a necessary prerequisite to operating any new prepaid metering program.

Section 3.19. The signatories hereto, including the AG, agree that OMU NOx expenditures of \$1 million per year incurred by KU pursuant to its contract with Owensboro Municipal Utility shall be recovered in KU's Environmental Cost Recovery filings pursuant to KRS 278.183. Recovery of the foregoing costs shall begin in April 2005 based upon the February 2005 expense month for KU.

Section 3.20. The signatories hereto, including the AG, agree that LG&E and KU shall offer a Curtailable Service Rider ("CSR1") to current customers who meet the eligibility requirements set forth in the proposed CSR1 tariff on such terms and conditions as specified in the proposed tariff subject to the following terms and conditions: (1) the customers shall be subject to curtailment for 250 hours annually; (2) the amount of the credit shall be \$3.20 per kW for primary voltage customers and \$3.10 per kW for transmission voltage customers; (3) the customers shall be entitled to 20 minutes notice of curtailment; (4) current customers shall have the option

of buying through the curtailment at the market rate as determined by LG&E/KU; (5) in the event a customer elects to buy through a curtailment, the customer shall be required to purchase all of the demand to be curtailed on an hourly basis; and (6) this curtailable service rider is available only to those customers who are covered by an existing curtailable service rider as of the execution of this Settlement Agreement.

Section 3.21. The signatories hereto, including the AG, agree that new customers not currently served by an existing CSR will be eligible to take curtailable service under a new CSR tariff (CSR2) as originally filed by the Companies in the rate proceedings, except such customers will be able to buy through a request for curtailment only after having been on the CSR2 service for three years with no failure to curtail when requested.

Section 3.22. The signatories hereto, including the AG, agree that NAS's electric arc furnace operations shall receive electric service pursuant to the LI-TOD tariff, effective April 1, 2004, except as otherwise noted and which shall provide that the LI-TOD tariff shall be the same as the Non-Conforming Load Service Tariff ("NCLS") as proposed in Case No. 2003-00396 with the following changes:

- (1) non-conforming load service shall be changed throughout to read large industrial-time of day (LI-TOD);
- (2) the rates to be applied shall be the same rates applicable to customers on the LCI-TOD tariff;

(3) the demand charge shall be calculated by multiplying the rate established above by demand measured as Peak Demand (**KVA**) measured in 15 minute intervals plus the difference between Peak Demand measured in 5 minute intervals less Peak Demand measured in 15 minute intervals (if a positive number) multiplied by 0.5 times the rate, expressed as  $DC = [D15 + (D5 - D15)0.5]R$ .

(4) Under the section of the tariff entitled System Contingencies and Industry System Performance Criteria the following additions are agreed:

a. The third sentence thereof shall be amended to limit the number of interruptions **per** month to no more than twenty with no carry-over from month to month. Within sixty days of the end of the applicable billing period, upon request, information and documentation necessary for customer to verify that interruptions were caused by system contingencies as defined herein will be made available to customer;

b. Customers under the LI-TOD tariff may contract to curtail service upon notification by Company on the same terms and conditions as exist under the Curtailable Service Rider for LCI-TOD customers except requests for curtailment by the Companies shall not exceed 200 hours in the first year the Customer contracts for service, effective April 1, 2004, and 100 hours in each continuously succeeding year. Requests for curtailment shall be limited to on-peak periods specified in the LCI-TOD tariff.

c. All other provisions of the curtailable service rider as proposed in this Settlement Agreement for customers on the LCI-TOD tariff shall apply except that Customer may not buy through a request for curtailment by virtue of the unusual nature of the load of the Large Industrial class of customers.

d. System contingencies shall be defined in the tariff as:

In order to facilitate Company compliance with system contingencies and with NERC/ECAR System Performance Criteria, Customer will permit the Company to install electronic equipment and associated real time metering to permit Company interruption up to 95% of the Customer's load under this tariff when the LG&E Energy LLC System ("LEC System") experiences an unplanned outage or de-rate of LEC System-owned or purchased generation, or when Automatic Reserve Sharing is invoked within the ECAR or an ISO/RTO. LEC System as used herein shall consist of Company and Louisville Gas and Electric Company. Such equipment will electronically notify customer five (5) minutes before the electronically initiated interruption that will begin immediately thereafter and last no longer than ten (10) minutes. The interruptions will not be accumulated and credited against the annual curtailment hours under this contract.

(5) Customers covered by the LI-TOD tariff as of **April 1, 2004** shall have the option to contract for additional service for a period of not less

than five (5) years under the terms of the tariff by signing a contract for additional service by March 1, 2005 which commits service to begin, or to pay, demand charges as agreed in such contract no later than July 1, 2006 before the tariff is extended to other customers. If the option given to current customers herein is not exercised by the dates specified the option expires.

(6) The difference, if any, between the invoiced charges for electric service for the NAS electric arc furnace operations for the months of April, May, and June, 2004 actually paid by NAS and those charges ultimately billed as approved by the Commission shall be refunded to NAS as a billing credit going forward.

Section 3.23. The signatories hereto, including the AG, agree that, except as modified in this Settlement Agreement, the proposals of the Utilities in the rate proceedings shall be approved as filed.

#### **ARTICLE IV. Miscellaneous Provisions.**

Section 4.1. The signatories hereto, including the AG, agree that 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.

Section 4.2. The signatories hereto, including the AG, agree that the foregoing stipulations and agreements represent a fair, just and reasonable resolution



of the issues addressed herein and request the Commission to approve the Settlement Agreement.

Section 4.3. The signatories hereto, including the AG, agree that, following the execution of this Settlement Agreement, the signatories shall cause the Settlement Agreement to be filed with the Commission by May 11, 2004, together with a request to the Commission for consideration and approval of this Settlement Agreement.

Section 4.4. The signatories hereto, other than the Utilities and the AG, stipulate that they will withdraw the direct testimony of their witnesses in the rate proceedings. The signatories hereto, other than the AG, stipulate that they will not otherwise contest the Utilities' proposals in the rate proceedings regarding the subject matter of the Stipulation, and that they will refrain from cross-examination of the Utilities' witnesses during the rate proceedings, except insofar as such cross-examination is in support of the Stipulation.

Section 4.5. The signatories hereto, including the AG, agree that this Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission. The signatories hereto, including the AG, further agree to act in good faith and to use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.

Section 4.6. The signatories hereto, including the AG, agree that, 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. provided that no party is precluded from advocating any position contained in this Settlement Agreement; and (b) neither the terms of this Settlement Agreement nor any matters 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 4.7. The signatories hereto, including the AG, agree that, should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement, then the parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this agreement.

Section 4.8. The signatories hereto, including the AG, agree that this Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

Section 4.9. The signatories hereto, including the AG, agree that this Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

Section 4.10. The signatories hereto, including the AG, agree that 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 4.11. The signatories hereto, including the AG, agree that, for the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a fair, just and reasonable resolution of the issues herein and are the product of compromise and negotiation.

Section 4.12. The signatories hereto, including the AG, agree that 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 terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

Section 4.13. The signatories hereto, including the AG, warrant that they have informed, advised, and consulted with the respective parties hereto in regard to the contents and significance of this Settlement Agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the parties hereto.

Section 4.14. The signatories hereto, including the AG, agree that 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. Notwithstanding anything contained in the Settlement Agreement, the parties recognize and agree that the effects, if

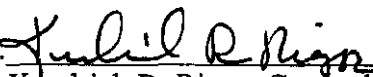
any, of any future events upon the operating income of the Utilities are unknown and this Settlement Agreement shall be implemented as written.

Section 4.15. The signatories hereto, including the AG, agree that this Settlement Agreement may be executed in multiple counterparts.

**IN WITNESS WHEREOF**, the parties hereto have hereunto affixed their signatures.

Louisville Gas and Electric Company  
and Kentucky Utilities Company

HAVE SEEN AND AGREED:

By:   
Kendrick R. Riggs, Counsel

-and-

By:   
Dorothy E. O'Brien, Counsel


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

HAVE SEEN AND AGREED:

By:   
Elizabeth E. Blackford, Counsel

Kentucky Industrial Utility Customers, Inc.

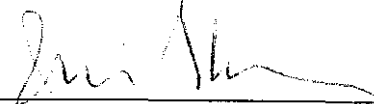
HAVE SEEN AND AGREED:

By:  \_\_\_\_\_  
David F. Roehm, Counsel  
Michael L. Kurtz, Counsel

Commonwealth of Kentucky,  
Environmental and Public Protection Cabinet,  
Division of Energy

HAVE SEEN AND AGREED:

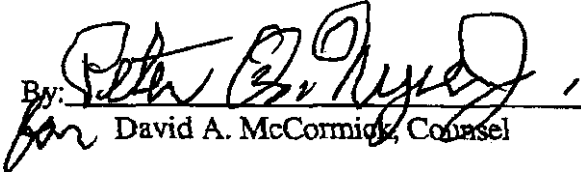
By:



\_\_\_\_\_  
Iris Skidmore, Counsel

United States Department of Defense

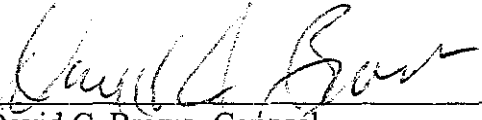
HAVE SEEN AND AGREED:

By:   
David A. McCormick, Counsel



The Kroger Co.

HAVE SEEN AND AGREED:

By:   
David C. Brown, Counsel

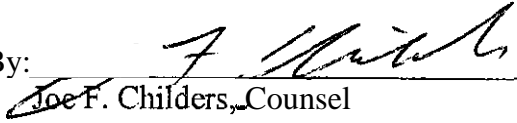
Kentucky Association for Community  
Action, Inc.

**HAVE SEEN AND AGREED:**

By:   
Joe F. Childers, Counsel

Community Action Council for  
Lexington-Fayette, Bourbon, Harrison  
and Nicholas Counties, Inc.

HAVE SEEN AND AGREED:

By:   
Joe F. Childers, Counsel

Metro Human Needs Alliance

HAVE SEEN AND AGREED:

By: *Lisa Kilkelly*  
Lisa Kilkelly, Counsel

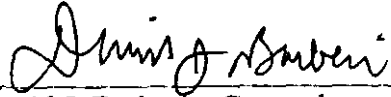
People Organized and Working for Energy Reform

HAVE SEEN AND AGREED:

By: Lisa Kilkelly  
Lisa Kilkelly, Counsel

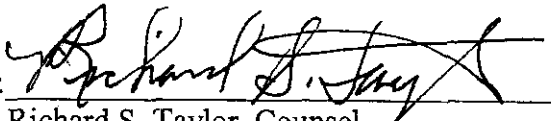
Lexington-Fayette Urban County Government

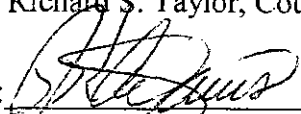
HAVE SEEN AND AGREED:

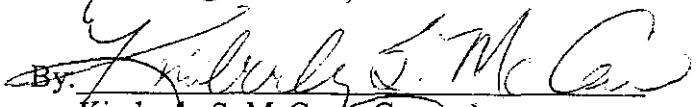
By  \_\_\_\_\_  
David J. Barberie, Counsel

North American Stainless. L.P.

HAVE SEEN AND AGREED:

By:   
Richard S. Taylor, Counsel

By:   
Nathaniel K. Adams, Counsel

By:   
Kimberly S. McCann, Counsel

Kentucky Utilities Company  
 Summary of Proposed Electric Rate Increase by Rate Class  
 For the 12 months Ended September 30, 2002

|   | Adjusted<br>Billings at<br>Current Rates | Proposed<br>Increase In<br>Revenue<br>As Filed | Percentage<br>Increase | Settlement<br>Increase | Percentage<br>Increase | Increase as<br>Percentage of<br>Total |
|---|--|--|------------------------|------------------------|------------------------|---------------------------------------|
| <b>Residential</b>                        | \$ 252,910,745                           | \$ 24,185,323                                  | 9.56%                  | \$ 20,193,976          | 7.98%                  | 43.763%                               |
| General Service                           | 66,269,093                               | 5,792,730                                      | 8.74%                  | 4,933,172              | 7.44%                  | 10.691%                               |
| All Electric School Service Rate AES      | 3,955,546                                |  | 0.00%                  | 294,587                | 7.45%                  | 0.638%                                |
| <b>Combined</b> Lighlning & Power Service | 226,957,349                              | 18,885,564                                     | 8.32%                  | 16,908,062             | 7.45%                  | 36.642%                               |
| Comm./Industrial Time-of-Day              | 84,135,770                               | 6,725,688                                      | 7.99%                  | 2,048,936              | 2.44%                  | 4.440%                                |
| Coal Mining Power Service                 | 8,542,207                                | 725,107  | 8.49%                  | 638,188                | 7.47%                  | 1.383%                                |
| Large Mine Power Time-of-Day              | 6,043,407                                | 513,353  | 8.49%                  | 453,462                | 7.50%                  | 0.983%                                |
| Special Contract                          | 14,551,478                               | (202,024)                                      | -1.19%                 | (261,052)              | -1.79%                 | -0.566%                               |
| Private Outdoor Lighlning                 | 13,396,416                               | 1,179,334                                      | 8.80%                  | 934,463                | 6.98%                  | 2.025%                                |
| TOTAL ULTIMATE CONSUMERS                  | 676,762,012                              | 57,805,075                                     | 8.54%                  | 46,143,794             | 6.82%                  | 100.00%                               |
| Miscellaneous Service Revenue             | 999,716                                  | 1,003,763                                      |                        | 408,443                |                        |                                       |
| Rent from Electric Property               | 1,957,235                                | (556,373)                                      |                        | (556,373)              |                        |                                       |
| TOTAL JURISDICTIONAL                      | 679,718,963                              | 58,252,465                                     | 8.57%                  | 45,995,864             | 6.77%                  |                                       |



Kentucky Utilities Company  
Summary of Proposed Increase  
Based on Sales for the 12 Months Ended September 30, 2003

|  | Adjusted<br>Billings at<br>Current Rates | Increase      | Percentage<br>Increase |
|--|--|---------------|------------------------|
| Residential Rate RS  | \$ 121,233,915                           | \$ 6,943,465  |                        |
| Full Electric Residential Service Rate FERS                  | 131,265,061                              | 13,122,981    |                        |
| Comb. Off-Peak Water Heating Rate CWH - RS                   | 226,880                                  | 66,404        |                        |
| Comb. Off-Peak Water Heating Rate CWH - FERS                 | 184,889                                  | 61,127        |                        |
| Total Residential  | 252,910,745                              | 20,193,976    | 7.98%                  |
| General Service Rate GS - Secondary                          | 63,054,553                               | 4,464,741     |                        |
| General Service Rate GS - Primary                            | 2,543,978                                | 233,163       |                        |
| Comb. Off-Peak Water Heating Rate CWH - GS                   | 2,434                                    | 798           |                        |
| Electric Space Heating Rider - Rate 33                       | 668,126                                  | 234,469       |                        |
| Total General Service  | 66,269,093                               | 4,933,172     | 7.44%                  |
| All Electric School Service Rate AES                         | 3,955,546                                | 294,587       | 7.45%                  |
| Combined Lighting & Power Service Rate LP - Secondary        | 155,582,998                              | 12,488,035    |                        |
| Combined Lighting & Power Service Rate LP - Primary          | 35,121,687                               | 1,919,971     |                        |
| Combined Lighting & Power Service Rate LP - Transmission     | 805,361                                  | 44,566        |                        |
| Water Pumping Service Rate M                                 | 723,351                                  | 45,644        |                        |
| High Load Factor Rate HLF Primary                            | 22,475,293                               | 1,496,550     |                        |
| High Load Factor Rate HLF Secondary                          | 12,248,660                               | 913,296       |                        |
| Total Combined Lighting & Power Service                      | 226,957,349                              | 16,908,062    | 7.45%                  |
| Large Comm./Industrial Time-of-Day Rate LCI-TOD Primary      | 65,546,566                               | 1,621,297     |                        |
| Large Comm./Industrial Time-of-Day Rate LCI-TOD Transmission | 18,589,204                               | 427,638       |                        |
| Total Comm./Industrial Time-of-Day                           | 84,135,770                               | 2,048,936     | 2.44%                  |
| Coal Mining Power Service Rate MP Transmission               | 3,748,239                                | 285,069       |                        |
| Coal Mining Power Service Rate MP Primary                    | 4,793,968                                | 353,120       |                        |
| Total Coal Mining Power Service                              | 8,542,207                                | 638,188       | 7.47%                  |
| Large Mine Power Time-of-Day Rate LMP-TOD Primary            | 1,944,714                                | 148,303       |                        |
| Large Mine Power Time-of-Day Rate LMP-TOD Transmission       | 4,098,693                                | 305,159       |                        |
| Total Large Mine Power Time-of-Day                           | 6,043,407                                | 453,462       | 7.50%                  |
| Special Contract   | 14,551,478                               | (261,052)     | -1.79%                 |
| Street Lighting Service Rate St. Lt.                         | 5,402,425                                | 376,225       |                        |
| Decorative Street Lighting Service Rate Dec. St. Lt.         | 807,559                                  | 56,815        |                        |
| Private Outdoor Lighting Service Rate P.O. Lt.               | 6,293,269                                | 438,616       |                        |
| Customer Outdoor Lighting Service Rate C. O. Lt.             | 693,164                                  | 60,807        |                        |
| Total Private Outdoor Lighting                               | 13,396,416                               | 934,463       | 6.98%                  |
| TOTAL ULTIMATE CONSUMERS                                     | \$ 676,762,012                           | \$ 46,143,794 | 6.82%                  |
| Miscellaneous Service Revenue                                | 999,716                                  | 408,443       |                        |
| Rent from Electric Property                                  | 1,957,235                                | (556,373)     |                        |
| TOTAL JURISDICTIONAL   | 679,718,963                              | 45,995,864    | 6.77%                  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)       | (3)                  | (4)              | (5)  | (6)                 | (7)  |
|--|-----------|----------------------|------------------|--|---------------------|--|
|  | Bills     | Total<br>KWH         | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>RS - Rate Codes 010,050</b>               |           |                      |                  |  |                     |  |
| Customer Charges (a)                         | 2,708,953 |                      | \$ 2.82          | \$ 7,639,247   | \$ 5.00             | \$ 13,544,765                                |
| First 100 KWH                                |           | 260,463,182          | \$ 0.05017       | 13,067,438   | \$ 0.04404          | 11,470,799                                   |
| Next 300 KWH                                 |           | 718,054,152          | \$ 0.04572       | 32,829,436   | \$ 0.04404          | 31,623,105                                   |
| Next 600 KWH                                 |           | 913,350,525          | \$ 0.04172       | 38,104,984   | \$ 0.04404          | 40,223,957                                   |
| Excess KWH                                   |           | 752,270,308          | \$ 0.04172       | 31,384,717   | \$ 0.04404          | 33,129,984                                   |
| Sub-Total                                    |           | <u>2,644,138,167</u> |                  | \$ 115,386,575   |                     | \$ 116,447,845                               |
| Total Calculated at Base Rates               |           |                      |                  | \$ 123,025,822   |                     | \$ 129,992,610                               |
| Correction Factor                            |           |                      |                  | 0.999957   |                     | 0.999957                                     |
| Total After Application of Correction Factor |           |                      |                  | <u>\$ 123,031,152</u>  |                     | <u>\$ 129,998,242</u>                        |
| Fuel Clause Billings - proforma for rollin   |           |                      |                  | 1,946,159  |                     | 1,946,159                                    |
| Merger Surcredit                             |           |                      |                  | (2,974,607)  |                     | (2,974,607)                                  |
| Value Delivery Surcredit                     |           |                      |                  | (367,155)  |                     | (367,155)                                    |
| VDT Amortization & Surcredit Adjustment      |           |                      |                  | 15,547   |                     | 15,547                                       |
| Adjustment to Reflect Year-End Customers     |           |                      |                  | (417,181)  |                     | (440,805)                                    |
| Total Rate RS                                |           |                      |                  | <u>\$ 121,233,915</u>  |                     | <u>\$ 128,177,380</u>                        |
| Proposed Increase                            |           |                      |                  |  |                     | 6,943,465                                    |
| Percentage Increase                          |           |                      |                  |  |                     | 5.73%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)    | (3)              | (4)              | (5)  | (6)                 | (7)  |
|--|--------|------------------|------------------|--|---------------------|--|
|  | Bills  | Total<br>KWH     | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <u>CWH -Rate Code 120, RS</u>                |        |                  |                  |  |                     |  |
| Customer Charges (a)                         | 51,243 |                  | \$ 1.03          | \$ 52,780  |                     | \$   |
| First 100 KWH                                |        | 4,042,164        | \$ 0.02665       | 107,724  | \$ 0.04404          | 178,017                                      |
| Next 300 KWH                                 |        | 2,852,289        | \$ 0.02665       | 76,013   | \$ 0.04404          | 125,615                                      |
| Next 600 KWH                                 |        | 193,230          | \$ 0.02665       | 5,150  | \$ 0.04404          | 8,510  |
| Excess KWH                                   |        | 0                | \$ 0.02665       |  | \$ 0.04404          |  |
| Subtotal                                     |        | <u>7,087,683</u> |                  | <u>\$ 188,887</u>  |                     | <u>\$ 312,142</u>                            |
| Total Calculated at Base Rates               |        |                  |                  | \$ 241,667   |                     | \$ 312,142                                   |
| Correction Factor                            |        |                  |                  | 0.999750   |                     | 0.999750                                     |
| Total After Application of Correction Factor |        |                  |                  | <u>\$ 241,727</u>  |                     | <u>\$ 312,220</u>                            |
|  |        |                  |                  |  |                     |  |
| Fuel Clause Billings - proforma for rollin   |        |                  |                  | 5,535  |                     | 5,535  |
| Merger Surcredit                             |        |                  |                  | (5,712)  |                     | (5,712)                                      |
| Value Delivery Surcredit                     |        |                  |                  | (679)  |                     | (679)  |
| VDT Amortization & Surcredit Adjustment      |        |                  |                  | 29   |                     | 29   |
| Adjustment to Reflect Year-End Customers     |        |                  |                  | (14,020)   |                     | (18,108)                                     |
| Total Rate CWH / RS                          |        |                  |                  | <u>\$ 226,880</u>  |                     | <u>\$ 293,284</u>                            |
|  |        |                  |                  |  |                     |  |
| Proposed Increase                            |        |                  |                  |  |                     | 66,404                                       |
| Percentage Increase                          |        |                  |                  |  |                     | 29.27%                                       |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)       | (3)                  | (4)              | (5)  | (6)                 | (7)  |
|--|-----------|----------------------|------------------|--|---------------------|--|
|  | Bills     | Total<br>KWH         | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <u>FERS - Rate Codes 020,060,080</u>         |           |                      |                  |  |                     |  |
| Customer Charges "(a)                        | 1,983,477 |                      | \$ 3.85          | \$ 7,636,386   | \$ 5.00             | \$ 9,917,385                                 |
| First 1,000 KWH                              |           | 1,686,402,755        | \$ 0.04229       | 71,317,973   | \$ 0.04404          | 74,269,177                                   |
| Excess KWH                                   |           | <u>1,358,217,822</u> | \$ 0.03836       | <u>52,101,236</u>  | \$ 0.04404          | <u>59,815,913</u>                            |
| Sub-Total                                    |           | <u>3,044,620,577</u> |                  | <u>\$ 123,419,208</u>  |                     | <u>\$ 134,085,090</u>                        |
| Total Calculated at Base Rates               |           |                      |                  | \$ 131,055,595   |                     | \$ 144,002,475                               |
| Correction Factor                            |           |                      |                  | 0.999917   |                     | 0.999917                                     |
| Total After Application of Correction Factor |           |                      |                  | <u>\$ 131,066,473</u>  |                     | <u>\$ 144,014,428</u>                        |
| Fuel Clause Billings- proforma for rollin    |           |                      |                  | 1,905,058  |                     | 1,905,058                                    |
| Merger Surcredit                             |           |                      |                  | (3,110,470)  |                     | (3,110,470)                                  |
| Value Delivery Surcredit                     |           |                      |                  | (383,963)  |                     | (383,963)                                    |
| VDT Amortization & Surcredit Adjustment      |           |                      |                  | 16,258   |                     | 16,258                                       |
| Adjustment to Reflect Year-End Customers     |           |                      |                  | 1,771,704  |                     | 1,946,729                                    |
| Total Rate FERS                              |           |                      |                  | <u>\$ 131,285,061</u>  |                     | <u>\$ 144,386,041</u>                        |
| Proposed Increase                            |           |                      |                  |  |                     | 13.1 22,981                                  |
| Percentage Increase                          |           |                      |                  |  |                     | 10.00%                                       |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)    | (3)          | (4)              | (5)  | (6)                 | (7)  |
|--|--------|--------------|------------------|--|---------------------|--|
|  | Bills  | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <u>CWH -Rate Codes 122 FERS</u>              |        |              |                  |  |                     |  |
| Customer Charges "(a)                        | 36,730 |              | \$ 1.03          | \$ 37,832  | \$ -                | \$ -   |
| First 1,000 KWH                              |        | 5,846,032    | \$ 0.02665       | 155,797  | \$ 0.04404          | 257,459                                      |
| Excess KWH                                   |        | <u>0</u>     | \$ 0.02665       |  | \$ 0.04404          |  |
| Sub-Total                                    |        | 5,846,032    |                  | <u>\$ 155,797</u>  |                     | <u>\$ 257,459</u>                            |
| Total Calculated at Base Rates               |        |              |                  | \$ 193,629   |                     | \$ 257,459                                   |
| Correction Factor                            |        |              |                  | 0.999892   |                     | 0.999892                                     |
| Total After Application of Correction Factor |        |              |                  | <u>\$ 193,650</u>  |                     | <u>\$ 257,487</u>                            |
| Fuel Clause Billings* proforma for rollin    |        |              |                  |  |                     | 4,573  |
| Merger Surcredit                             |        |              |                  |  |                     | (4,584)                                      |
| Value Delivery Surcredit                     |        |              |                  |  |                     | (550)  |
| VDT Amortization & Surcredit Adjustment      |        |              |                  |  |                     | 23   |
| Adjustment to Reflect Year-End Customers     |        |              |                  |  |                     | (10,934)                                     |
| Total Rate CWH/ FERS                         |        |              |                  | <u>\$ 104,009</u>  |                     | <u>\$ 246,016</u>                            |
| Proposed increase                            |        |              |                  |  |                     | 61,127                                       |
| Percentage Increase                          |        |              |                  |  |                     | 33.06%                                       |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)   | (2)     | (3)                  | (4)              | (5)  | (6)                 | (7)  |
|---|---------|----------------------|------------------|--|---------------------|--|
|   | Bills   | Total<br>KWH         | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>GSS - Rate Codes 110, 113, 150, 153, 710</b> |         |                      |                  |  |                     |  |
| Customer Charges (a)                            | 822,782 |                      | \$ 4.11          | \$ 3,381,634   | \$ 10.00            | \$ 8,227,820                                 |
| First 500 KWH                                   |         | 250,675,964          | \$ 0.06443       | 16,151,052   | \$ 0.05327          | 13,353,509                                   |
| Next 1,500 KWH                                  |         | 340,305,160          | \$ 0.05332       | 18,145,071   | \$ 0.05327          | 18,128,056                                   |
| Excess KWH                                      |         | <u>514,894,841</u>   | \$ 0.04870       | 25,075,379   | \$ 0.05327          | 27,428,448                                   |
| Sub-Total                                       |         | <u>1,105,875,966</u> |                  | <u>\$ 59,371,502</u>   |                     | <u>\$ 58,910,013</u>                         |
| Total Calculated at Bare Rates                  |         |                      |                  | \$ 62,753,136  |                     | \$ 67,137,833                                |
| Correction Factor                               |         |                      |                  | 0.994771   |                     | 0.994771                                     |
| Total After Application of Correction Factor    |         |                      |                  | <u>\$ 63,083,006</u>   |                     | <u>\$ 67,490,751</u>                         |
| Fuel Clause Billings - proforma for rollin      |         |                      |                  | 831,532  |                     | 831,532                                      |
| Merger Surcredit                                |         |                      |                  | (1,498,838)  |                     | (1,498,838)                                  |
| Value Delivery Surcredit                        |         |                      |                  | (184,691)  |                     | (184,691)                                    |
| VDT Amortization & Surcredit Adjustment         |         |                      |                  | 7,821  |                     | 7,821  |
| Adjustment to Reflect Year-End Customers        |         |                      |                  | 815,724  |                     | 872,720                                      |
| Total Rate <b>GS</b> Secondary                  |         |                      |                  | <u>\$ 63,054,553</u>   |                     | <u>\$ 67,519,294</u>                         |
| Proposed Increase                               |         |                      |                  |  |                     | 4,464,741                                    |
| Percentage Increase                             |         |                      |                  |  |                     | 7.08%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)   | (3)               | (4)              | (5)  | (6)                 | (7)  |
|--|-------|-------------------|------------------|--|---------------------|--|
|  | Bills | Total<br>KWH      | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>GSP - Rate Codes 111, 151</b>             |       |                   |                  |  |                     |  |
| Customer Charges "(a)                        | 1,127 |                   | \$ 4.11          | \$ 4,632   | \$ 10.00            | \$ 11,270                                    |
| First 500 KWH                                |       | 461,154           | \$ 0.06443       | 29,712   | \$ 0.05327          | 24,566                                       |
| Next 1,500 KWH                               |       | 1,168,955         | \$ 0.05332       | 62,329   | \$ 0.05327          | 62,270                                       |
| Excess KWH                                   |       | <u>50,497,087</u> | \$ 0.04870       | 2,459,208  | \$ 0.05327          | 2,689,980                                    |
| Sub-Total                                    |       | 52,127,196        |                  | \$ 2,551,249   |                     | \$ 2,776,816                                 |
| Primary Service Discounts                    |       |                   |                  | (142,440)  |                     | (155,381)                                    |
| Minimum Billings                             |       |                   |                  | 156,810  |                     | 171,057                                      |
| Total Calculated at Base Rates               |       |                   |                  | \$ 2,570,251   |                     | \$ 2,803,762                                 |
| Correction Factor                            |       |                   |                  | 1.001490   |                     | 1.001490                                     |
| Total After Application of Correction Factor |       |                   |                  | <u>\$ 2,566,427</u>  |                     | <u>\$ 2,799,590</u>                          |
| Fuel Clause Billings- proforma for rollin    |       |                   |                  | 45,451   |                     | 45,451                                       |
| Merger Surcredit                             |       |                   |                  | (61,024)   |                     | (61,024)                                     |
| Value Delivery Surcredit                     |       |                   |                  | (7,181)  |                     | (7,181)                                      |
| VDT Amortization & Surcredit Adjustment      |       |                   |                  | 304  |                     | 304  |
| Adjustment to Reflect Year-End Customers     |       |                   |                  | -  |                     | -  |
| Total Rate GS Primary                        |       |                   |                  | <u>\$ 2,543,978</u>  |                     | <u>\$ 2,777,141</u>                          |
| Proposed Increase                            |       |                   |                  |  |                     | 233,163                                      |
| Percentage Increase                          |       |                   |                  |  |                     | 9.17%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)   | (3)           | (4)              | (5)   | (6)                 | (7)  |
|--|-------|---------------|------------------|---|---------------------|--|
|  | Bills | Total<br>KWH  | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><small>(see Exhibit 9)</small> | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>CWH -Rate Codes 126 GS</b>                |       |               |                  |   |                     |  |
| Customer Charges (a)                         | 901   |               | \$ 1.03          | \$ 928  |                     | \$   |
| First 500 KWH                                |       | 68,163        | \$ 0.02665       | 1,817   | \$ 0.05327          | 3,631  |
| Next 1,500 KWH                               |       | 342           | \$ 0.02665       | 9   | \$ 0.05327          | 18   |
| Excess KWH                                   |       | 0             | \$ 0.02665       |   | \$ 0.05327          |  |
| Sub-Total                                    |       | <u>66,505</u> |                  | <u>\$ 1,826</u>   |                     | <u>\$ 3,649</u>                              |
| Total Calculated at Base Rates               |       |               |                  | \$ 2,754  |                     | \$ 3,649                                     |
| Correction Factor                            |       |               |                  | <u>1.000019</u>   |                     | <u>1.000019</u>                              |
| Total After Application of Correction Factor |       |               |                  | <u>\$ 2,754</u>   |                     | <u>\$ 3,649</u>                              |
| <br>   |       |               |                  |   |                     |  |
| Fuel Clause Billings - proforma for rollin   |       |               |                  | 51  |                     | 51   |
| Merger Surcredit                             |       |               |                  | (64)  |                     | (64)   |
| Value Delivery Surcredit                     |       |               |                  | (7)   |                     | (7)  |
| VDT Amortization & Surcredit Adjustment      |       |               |                  | 0   |                     | 0  |
| Adjustment to Reflect Year-End Customers     |       |               |                  | (299)   |                     | (396)  |
| Total Rate CWH / GS                          |       |               |                  | <u>\$ 2,434</u>   |                     | <u>\$ 3,233</u>                              |
| Proposed Increase                            |       |               |                  |   |                     | 798  |
| Percentage Increase                          |       |               |                  |   |                     | 32.79%                                       |



KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)    | (3)              | (4)              | (5)  | (6)                 | (7)  |
|--|--------|------------------|------------------|--|---------------------|--|
|  | Bills  | Total<br>KWH     | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <u>33 - Rate Code 330 GS</u>                 |        |                  |                  |  |                     |  |
| Customer Charges *(a)                        | 11,530 |                  | \$ -             | \$ -   | \$ -                | \$ -   |
| First 500 KWH                                |        | 3,040,894        | \$ 0.03926       | 119,385  | \$ 0.05327          | 161,988                                      |
| Next 1,500 KWH                               |        | 4,522,308        | \$ 0.03926       | 177,546  | \$ 0.05327          | 240,903                                      |
| Excess KWH                                   |        | <u>9,709,702</u> | \$ 0.03926       | <u>381,203</u>   | \$ 0.05327          | <u>517,236</u>                               |
| Sub-Total                                    |        | 17,272,904       |                  | \$ 678,134   |                     | \$ 920,128                                   |
| Minimum Billings                             |        |                  |                  | 23,562   |                     | 23,562                                       |
| Total Calculated at Base Rates               |        |                  |                  | \$ 701,696   |                     | \$ 943,690                                   |
| Correction Factor                            |        |                  |                  | <u>1.002812</u>  |                     | <u>1.002812</u>                              |
| Total After Application of Correction Factor |        |                  |                  | <u>\$ 699,728</u>  |                     | <u>\$ 941,043</u>                            |
| Fuel Clause Billings - proforma for rollin   |        |                  |                  | 6,006  |                     | 6,006  |
| Merger Surcredit                             |        |                  |                  | (15,915)   |                     | (15,915)                                     |
| Value Delivery Surcredit                     |        |                  |                  | (1,924)  |                     | (1,924)                                      |
| VDT Amortization & Surcredit Adjustment      |        |                  |                  | 81   |                     | 81   |
| Adjustment to Reflect Year-End Customers     |        |                  |                  | (19,849)   |                     | (26,694)                                     |
| Total Rate 33                                |        |                  |                  | <u>\$ 668,128</u>  |                     | <u>\$ 902,598</u>                            |
| Proposed Increase                            |        |                  |                  |  |                     | 234,469                                      |
| Percentage Increase                          |        |                  |                  |  |                     | 35.09%                                       |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003

| (1)   | (2)           | (3)          | (4)              | (5)  | (6)                 | (7)  |
|---|---------------|--------------|------------------|--|---------------------|--|
|   | Bills /<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>LPS/AES -Rate Coda 220</b>                       |               |              |                  |  |                     |  |
| Number of Customers                                 | 3,474         |              |                  |  |                     |  |
| Demand  | 367,906       |              | \$ -             | \$ -   | \$ -                | \$ -   |
| First 500,000 KWH                                   |               | 100,707,601  | \$ 0.03936       | 3,963,851  | \$ 0.04227          | 4,256,910                                    |
| Next 1,500,000 KWH                                  |               | 0            | \$ 0.03936       |  | \$ 0.04227          |  |
| Excess KWH  |               | 0            | \$ 0.03936       |  | \$ 0.04227          |  |
| Sub-Total   |               | 100,707,601  |                  | \$ 3,963,851   |                     | \$ 4,256,910                                 |
| Minimum Billings                                    |               |              |                  | 6,022  |                     | 6,022  |
| Total Calculated at Base Rates                      |               |              |                  | \$ 3,969,873   | 5                   | 4,262,932                                    |
| Correction Factor                                   |               |              |                  | 0.994813   |                     | 0.994813                                     |
| Total <b>After</b> Application of Correction Factor |               |              |                  | \$ 3,990,570   |                     | \$ 4,285,158                                 |
|   |               |              |                  |  |                     |  |
| Fuel Clause Billings - proforma for rollin          |               |              |                  | 70,235   |                     | 70,235                                       |
| Merger Surcredit                                    |               |              |                  | (94,157)   |                     | (94,157)                                     |
| Value Delivery Surcredit                            |               |              |                  | (11,594)   |                     | (11,594)                                     |
| VDT Amortization & Surcredit Adjustment             |               |              |                  | 491  |                     | 491  |
| Adjustment to Reflect Year-End Customers            |               |              |                  |  |                     |  |
| Total Rate AES                                      |               |              |                  | \$ 3,955,546   |                     | \$ 4,250,133                                 |
|   |               |              |                  |  |                     |  |
| Proposed Increase                                   |               |              |                  |  |                     | 294,587                                      |
| Percentage Increase                                 |               |              |                  |  |                     | 7.45%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)           | (3)                  | (4)              | (5)  | (6)                 | (7)  |
|--|---------------|----------------------|------------------|--|---------------------|--|
|  | Bills /<br>KW | Total<br>KWH         | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>LPS - Rate Codes 562,568</b>              |               |                      |                  |  |                     |  |
| Number of Customers                          | 154,715       |                      |                  |  | \$ 75.00            | \$ 11,603,625                                |
| Demand                                       | 10,678,854    |                      | \$ 4.11          | \$ 43,890,092  | \$ 6.65             | 71,014,382                                   |
| Minimum Annual Charges                       |               |                      |                  | 136,444  |                     | 220,767                                      |
| First 500,000 KWH                            |               | 3,874,329,937        | \$ 0.02872       | 111,270,756  | \$ 0.02200          | 85,235,259                                   |
| Next 1,500,000 KWH                           |               | 61,080,231           | \$ 0.02633       | 1,608,242  | \$ 0.02200          | 1,343,765                                    |
| Excess KWH                                   |               | 0                    | \$ 0.02504       |  | \$ 0.02200          |  |
| Sub-Total                                    |               | <u>3,935,410,168</u> |                  | <u>\$ 112,878,998</u>  |                     | <u>\$ 86,579,024</u>                         |
| Total Calculated at Base Rates               |               |                      |                  | \$ 156,905,534   |                     | \$ 169,417,797                               |
| Correction Factor                            |               |                      |                  | 0.998130   |                     | 0.998130                                     |
| Total After Application of Correction Factor |               |                      |                  | <u>\$ 157,199,484</u>  |                     | <u>\$ 169,735,188</u>                        |
| Fuel Clause Billings - proforma for rollin   |               |                      |                  | 3,170,805  |                     | 3,170,805                                    |
| Merger Surcredit                             |               |                      |                  | (3,748,979)  |                     | (3,748,979)                                  |
| Value Delivery Surcredit                     |               |                      |                  | (460,016)  |                     | (460,016)                                    |
| VDT Amortization & Surcredit Adjustment      |               |                      |                  | 19,479   |                     | 19,479                                       |
| Adjustment to Reflect Year-End Customers     |               |                      |                  | (597,774)  |                     | (645,443)                                    |
| Total Rate LP Secondary                      |               |                      |                  | <u>\$ 155,582,998</u>  |                     | <u>\$ 168,071,034</u>                        |
| Proposed Increase                            |               |                      |                  |  |                     | <b>12,488,035</b>                            |
| Percentage Increase                          |               |                      |                  |  |                     | 8.03%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)          | (3)          | (4)              | (5)  | (6)                 | (7)  |
|--|--------------|--------------|------------------|--|---------------------|--|
|  | Bills/<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>LPP - Rate Codes 561,566</b>              |              |              |                  |  |                     |  |
| Number of Customers                          | 3,656        |              |                  |  | \$ 75.00            | \$ 274,200                                   |
| Demand                                       | 2,381,439    |              | \$ 3.13          | \$ 7,453,905   | \$ 6.26             | 14,907,810                                   |
| CSR Credits                                  | 43,289       |              | \$ (3.20)        | (138,526)  | \$ (3.20)           | (138,526)                                    |
| CSR Penalties                                |              |              |                  | 2,411  |                     | 2,411  |
| First 500,000 KWH                            |              | 639,927,383  | \$ 0.02872       | 18,378,714   | \$ 0.02200          | 14,078,402                                   |
| Next 1,500,000 KWH                           |              | 331,775,188  | \$ 0.02633       | 8,735,641  | \$ 0.02200          | 7,299,054                                    |
| Excess KWH                                   |              | 26,286,146   | \$ 0.02504       | 658,205  | \$ 0.02200          | 578,295                                      |
| Sub-Total                                    |              | 997,988,716  |                  | \$ 27,772,560  |                     | \$ 21,955,752                                |
| Total Calculated at Base Rates               |              |              |                  | \$ 35,090,351  |                     | \$ 37,001,647                                |
| Correction Factor                            |              |              |                  | 0.998820   |                     | 0.998820                                     |
| Total After Application of Correction Factor |              |              |                  | \$ 35,131,814  |                     | \$ 37,045,369                                |
| Fuel Clause Billings - proforma for rollin   |              |              |                  | 814,739  |                     | 814,739                                      |
| Merger Surcredit                             |              |              |                  | (843,553)  |                     | (843,553)                                    |
| Value Delivery Surcredit                     |              |              |                  | (103,491)  |                     | (103,491)                                    |
| VDT Amortization & Surcredit Adjustment      |              |              |                  | 4,382  |                     | 4,382  |
| Adjustment to Reflect Year-End Customers     |              |              |                  | 117,795  |                     | 124,211                                      |
| Total Rate LP Primary                        |              |              |                  | <u>\$ 35,121,687</u>   |                     | <u>\$ 37,041,656</u>                         |
| Proposed Increase                            |              |              |                  |  |                     | 1,919,971                                    |
| Percentage Increase                          |              |              |                  |  |                     | 5.47%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003

| (1)  | (2)          | (3)               | (4)              | (5)   | (6)                 | (7)  |
|--|--------------|-------------------|------------------|---|---------------------|--|
|  | Bills/<br>KW | Total<br>KWH      | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><small>(see Exhibit 9)</small> | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>LPT - Rate Codes 560,567</b>              |              |                   |                  |   |                     |  |
| Number of Customers                          | 27           |                   |                  |   | \$ 75.00            | \$ 2,025                                     |
| Demand                                       | 36.408       |                   | \$ 2.97          | \$ 108.133  | \$ 5.92             | 215,538                                      |
| Minimum Annual Charges                       |              |                   |                  | 1,522   |                     | 3,034  |
| First 500,000 KWH                            |              | 6,109,950         | \$ 0.02872       | 175,478   | \$ 0.02200          | 134,419                                      |
| Next 1,500,000 KWH                           |              | 9,366,902         | \$ 0.02633       | 246,631   | \$ 0.02200          | 206,072                                      |
| Excess KWH                                   |              | 0                 | \$ 0.02504       |   | \$ 0.02200          |  |
| Sub-Total                                    |              | <u>15,476,852</u> |                  | <u>\$ 422,108</u>   |                     | <u>\$ 340,491</u>                            |
| Total Calculated at Base Rates               |              |                   |                  | \$ 531,763  |                     | \$ 561.087                                   |
| Correction Factor                            |              |                   |                  | 0.993946  |                     | 0.993946                                     |
| Total Afler Application of Correction Factor |              |                   |                  | <u>\$ 535,002</u>   |                     | <u>\$ 564,505</u>                            |
| Fuel Clause Billings - proforma for rollin   |              |                   |                  | 11,436  |                     | 11,436                                       |
| Merger Surcredit                             |              |                   |                  | (12,742)  |                     | (12,742)                                     |
| Value Delivery Surcredit                     |              |                   |                  | (1,567)   |                     | (1,567)                                      |
| VDT Amortization & Surcredit Adjustment      |              |                   |                  | 66  |                     | 66   |
| Adjustment to Reflect Year-End Customers     |              |                   |                  | 273,166   |                     | 288,230                                      |
| Total Rate LP Transmission                   |              |                   |                  | <u>\$ 805,361</u>   |                     | <u>\$ 849,927</u>                            |
| Proposed Increase                            |              |                   |                  |   |                     | <b>44,566</b>                                |
| Percentage Increase                          |              |                   |                  |   |                     | 5.53%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)          | (3)           | (4)              | (5)  | (6)                 | (7)  |
|--|--------------|---------------|------------------|--|---------------------|--|
|  | Bills/<br>KW | Total<br>KWH  | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>LCIP - Rate Code 563</b>                  |              |               |                  |  |                     |  |
| Number of Customers                          | 315          |               |                  |  | \$ 120.00           | \$ 37.800                                    |
| On-Peak Demand                               | 4,068,204    |               | \$ 4.14          | \$ 16,842,364  | \$ 4.58             | 18,632,374                                   |
| Off-Peak Demand                              | 3,969,563    |               | \$ 0.73          | \$ 2,897,781   | \$ 0.73             | 2,897,781                                    |
| CSR Credits                                  | 64.834       |               | \$ (3.20)        | \$ (207,469)   | \$ (3.20)           | (207,469)                                    |
| Penalties                                    |              |               |                  | 21,553   |                     | 21,553                                       |
| Energy                                       |              | 2,080,374,735 | \$ 0.02210       | 45,987,332   | \$ 0.02200          | 45,779,244                                   |
| Total Calculated at Base Rates               |              |               |                  | \$ 65,541,561  |                     | \$ 67,161,283                                |
| Correction Factor                            |              |               |                  | 0.999029   |                     | 0.999029                                     |
| Total After Application of Correction Factor |              |               |                  | <u>\$ 65,605,294</u>   |                     | <u>\$ 67,226,592</u>                         |
| Fuel Clause Billings - proforma for rollin   |              |               |                  | 1,698,726  |                     | 1,698,726                                    |
| Merger Surcredit                             |              |               |                  | (1,573,353)  |                     | (1,573,353)                                  |
| Value Delivery Surcredit                     |              |               |                  | (192,241)  |                     | (192,241)                                    |
| VDT Amortization & Surcredit Adjustment      |              |               |                  | 8,140  |                     | 8,140  |
| Adjustment to Reflect Year-End Customers     |              |               |                  |  |                     |  |
| Total Rate LCI Primary                       |              |               |                  | <u>\$ 65,546,566</u>   |                     | <u>\$ 67,167,863</u>                         |
| Proposed Increase                            |              |               |                  |  |                     | 1,621,297                                    |
| Percentage increase                          |              |               |                  |  |                     | 2.47%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)          | (3)          | (4)              | (5)   | (6)                 | (7)  |
|--|--------------|--------------|------------------|---|---------------------|--|
|  | Bills/<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><small>(see Exhibit 9)</small> | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>LCIT - Rate Code 564</b>                  |              |              |                  |   |                     |  |
| Number of Customers                          | 48           |              |                  |   | \$ 120.00           | \$ 5,760                                     |
| On-Peak Demand                               | 1,099,952    |              | \$ 3.95          | \$ 4,344,810  | \$ 4.39             | 4,828,789                                    |
| Off-Peak Demand                              | 1,092,494    |              | \$ 0.73          | 797,521   | \$ 0.73             | 797,521                                      |
| CSR Credits                                  | 122,014      |              | \$ (3.10)        | (378,243)   | \$ (3.10)           | (378,243)                                    |
| Penalties                                    |              |              |                  | 76,807  |                     | 76,807                                       |
| Energy                                       |              | 621,047,926  | \$ 0.02210       | 13,725,159  | \$ 0.02200          | 13,663,054                                   |
| Total Calculated at <b>Base</b> Rates        |              |              |                  | \$ 18,566,054   |                     | \$ 18,993,688                                |
| Correction Factor                            |              |              |                  | <u>0.999990</u>   |                     | <u>0.999990</u>                              |
| Total After Application of Correction Factor |              |              |                  | <u>\$ 18,566,238</u>  |                     | <u>\$ 18,993,876</u>                         |
| Fuel Clause Billings - proforma for rollin   |              |              |                  | 526,690   |                     | 526,690                                      |
| Merger Surcredit                             |              |              |                  | (450,942)   |                     | (450,942)                                    |
| Value Delivery Surcredit                     |              |              |                  | (55,117)  |                     | (55,117)                                     |
| VDT Amortization & Surcredit Adjustment      |              |              |                  | 2,334   |                     | 2,334  |
| Adjustment to Reflect Year-End Customers     |              |              |                  |   |                     |  |
| <b>Total Rate LCI Transmission</b>           |              |              |                  | <u>\$ 18,589,204</u>  |                     | <u>\$ 19,016,842</u>                         |
| Proposed Increase                            |              |              |                  |   |                     | 427,630                                      |
| Percentage Increase                          |              |              |                  |   |                     | 2.30%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003

| (1)  | (2)          | (3)          | (4)              | (5)  | (6)                 | (7)  |
|--|--------------|--------------|------------------|--|---------------------|--|
|  | Bills/<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>HLFP -Rate Code 571</b>                   |              |              |                  |  |                     |  |
| Number of Customers                          | 529          |              |                  |  | \$ 75.00            | \$ 39,675                                    |
| Demand                                       | 1,345,913    |              | \$ 4.79          | \$ 6,446,922   | \$ 6.26             | 8,425,414                                    |
| Energy                                       |              | 723,323,088  | \$ 0.02270       | 16,419,434   | \$ 0.02200          | 15,913.108                                   |
| Minimum Billings                             |              |              |                  | 38,375   |                     | 50,151                                       |
| Total Calculated at Base Rates               |              |              |                  | <b>\$ 22,904,731</b>   |                     | <b>\$ 24,428,349</b>                         |
|  |              |              |                  | 0.994328   |                     | 0.994328                                     |
| Total After Application of Correction Factor |              |              |                  | <b>\$ 23,035,385</b>   |                     | <b>\$ 24,567,694</b>                         |
| Fuel Clause Billings - proforma for rollin   |              |              |                  | 591,757  |                     | 591,757                                      |
| Merger Surcredit                             |              |              |                  | (550,321)  |                     | (550,321)                                    |
| Value Delivery Surcredit                     |              |              |                  | (66,795)   |                     | (66,795)                                     |
| VDT Amortization & Surcredit Adjustment      |              |              |                  | 2,828  |                     | 2,828  |
| Adjustment to Reflect Year-End Customers     |              |              |                  | (537,561)  |                     | (573,319)                                    |
| Total Rate HLF Primary                       |              |              |                  | <b>\$ 22,475,293</b>   |                     | <b>\$ 23,971,843</b>                         |
| Proposed Increase                            |              |              |                  |  |                     | <b>1,496,550</b>                             |
| Percentage Increase                          |              |              |                  |  |                     | 6.66%  |



KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)           | (3)          | (4)              | (5)  | (6)                 | (7)  |
|--|---------------|--------------|------------------|--|---------------------|--|
|  | Bills /<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <u>HLFS -Rate Code 572</u>                   |               |              |                  |  |                     |  |
| Number of Customers                          | 494           |              |                  |  | \$ 75.00            | \$ 37,050                                    |
| Demand                                       | 705,460       |              | \$ 5.13          | \$ 3,619,007   | \$ 6.65             | 4,691,306                                    |
| Energy                                       |               | 370,430,550  | \$ 0.02270       | 8,408,773  | \$ 0.02200          | 8,149,472                                    |
| Minimum Billings                             |               |              |                  | 203,871  |                     | 264,277                                      |
| Total Calculated at Base Rates               |               |              |                  | \$ 12,231,651  |                     | 5 13,142,105                                 |
| Correction Factor                            |               |              |                  | 0.996888   |                     | 0.996888                                     |
| Total After Application of Correction Factor |               |              |                  | <u>\$ 12,269,841</u>   |                     | <u>\$ 13,183,137</u>                         |
| Fuel Clause Billings - proforma for rollin   |               |              |                  | 305,857  |                     | 305,857                                      |
| Merger Surcredit                             |               |              |                  | (292,805)  |                     | (292,805)                                    |
| Value Delivery Surcredit                     |               |              |                  | (35,747)   |                     | (35,747)                                     |
| VDT Amortization & Surcredit Adjustment      |               |              |                  | 1,514,   |                     | 1,514  |
| Adjustment to Reflect Year-End Customers     |               |              |                  |  |                     | -  |
| Total Rate HLF Secondary                     |               |              | 5                | <u>12,248,660</u>  |                     | <u>\$ 13,161,955</u>                         |
| Proposed Increase                            |               |              |                  |  |                     | 913.296                                      |
| Percentage Increase                          |               |              |                  |  |                     | 7.46%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)   | (2)           | (3)               | (4)              | (5)  | (6)                 | (7)  |
|---|---------------|-------------------|------------------|--|---------------------|--|
|   | Bills /<br>KW | Total<br>KWH      | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>Rate M - Rate Code 650</b>                       |               |                   |                  |  |                     |  |
| Customer Charges (a)                                | 1,151         |                   | \$ 10.27         | \$ 11,821  | \$ 75.00            | \$ 86,325                                    |
| Demand Charges                                      | 46,351.6      |                   | \$ -             | \$ -   | \$ 6.65             | \$ 308,238                                   |
| First 10,000 KWH                                    |               | 6,136,374         | \$ 0.04631       | 284,175  | \$ 0.02200          | 135,000                                      |
| Excess KWH  |               | <u>10,959,266</u> | \$ 0.03917       | 429,274  | \$ 0.02200          | <u>241,104</u>                               |
| Sub-Total   |               | 17,095,640        |                  | <u>\$ 713,450</u>  |                     | <u>\$ 376,104</u>                            |
| Total Calculated at Base Rates                      |               |                   |                  | \$ 725,271   |                     | \$ 770,667                                   |
| Correction Factor                                   |               |                   |                  | 0.994581   |                     | 0.994581                                     |
| <b>Total After Application of correction Factor</b> |               |                   |                  | <u>\$ 729,223</u>  |                     | <u>\$ 774,866</u>                            |
| Fuel Clause Billings - proforma for rollin          |               |                   |                  |  |                     | 13,459                                       |
| Merger Surcredit                                    |               |                   |                  |  |                     | (17,302)                                     |
| Value Delivery Surcredit                            |               |                   |                  |  |                     | (2,118)                                      |
| VDT Amortization & Surcredit Adjustment             |               |                   |                  |  |                     | 90   |
| Adjustment to Reflect Year-End Customers            |               |                   |                  |  |                     | 90   |
| Total Rate M Water Pumping                          |               |                   |                  | <u>\$ 723,351</u>  |                     | <u>\$ 768,995</u>                            |
| Proposed Increase                                   |               |                   |                  |  |                     | 45,644                                       |
| Percentage Increase                                 |               |                   |                  |  |                     | 6.31%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)   | (2)           | (3)          | (4)              | (5)  | (6)                 | (7)  |
|---|---------------|--------------|------------------|--|---------------------|--|
|   | Bills /<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>MPT - Rate Codes 680,687</b>                     |               |              |                  |  |                     |  |
| Number of Customers                                 | 183           |              |                  |  | \$ 75.00            | \$ 13,725                                    |
| Demand  | 335,459       |              | \$ 2.67          | \$ 895,675   | \$ 4.57             | 1,533,046                                    |
| First 500,000 KWH                                   |               | 55,158,510   | \$ 0.02881       | 1,589,117  | \$ 0.02400          | 1,323,804                                    |
| Excess KWH  |               | 59,532,090   | \$ 0.02540       | 1,512,115  | \$ 0.02400          | 1,428,770                                    |
| Sub-Total   |               | 114,690,600  |                  | \$ 3,101,232   |                     | \$ 2,752,574                                 |
| Total Calculated at Base Rates                      |               |              |                  | \$ 3,996,906   |                     | \$ 4,299,346                                 |
| Correction Factor                                   |               |              |                  | 0.988697   |                     | 0.988697                                     |
| Total After Application of <b>Correction</b> Factor |               |              |                  | <u>\$ 4,042,601</u>  |                     | <u>\$ 4,348,498</u>                          |
| Fuel Clause Billings- proforma for rollin           |               |              |                  | 87,711   |                     | 87,711                                       |
| Merger Surcredit                                    |               |              |                  | (95,856)   |                     | (95,656)                                     |
| Value Delivery Surcredit                            |               |              |                  | (11,653)   |                     | (11,653)                                     |
| VDT Amortization & Surcredit Adjustment             |               |              |                  | 493  |                     | 493  |
| Adjustment to Reflect Year-End Customers            |               |              |                  | (275,257)  |                     | (296,085)                                    |
| <b>Total Rate MP Transmission</b>                   |               |              |                  | <u><u>\$ 3,746,239</u></u>   |                     | <u><u>\$ 4,033,308</u></u>                   |
| Proposed Increase                                   |               |              |                  |  |                     | <b>285,069</b>                               |
| Percentage Increase                                 |               |              |                  |  |                     | 7.61%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)           | (3)          | (4)              | (5)  | (6)                 | (7)  |
|--|---------------|--------------|------------------|--|---------------------|--|
|  | Bills /<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>MPP - Rate Codes 681,686</b>              |               |              |                  |  |                     |  |
| Number of Customers                          | 261           |              |                  |  | \$ 75.00            | \$ 19,575                                    |
| Demand                                       | 473.781       |              | \$ 3.01          | \$ 1,428,082   | \$ 4.69             | 2,222,034                                    |
| First 500,000 KWH                            |               | 89,036,933   | \$ 0.02881       | 2,565,154  | \$ 0.02400          | 2,136,886                                    |
| Excess KWH                                   |               | 38,740,167   | \$ 0.02540       | 984,000  | \$ 0.02400          | 929,764                                      |
| Sub-Total                                    |               | 127,777,100  |                  | \$ 3,549,154   |                     | \$ 3,086,650                                 |
| Minimum Annual Charges                       |               |              |                  | 64,223   |                     | 100,068                                      |
| Total Calculated at Base Rates               |               |              |                  | \$ 5,039,459   |                     | \$ 5,408,328                                 |
| Correction Factor                            |               |              |                  | 0.996149   |                     | 0.996149                                     |
| Total After Application of Correction Factor |               |              |                  | <u>\$ 5,058,939</u>  |                     | <u>\$ 5,429,234</u>                          |
| Fuel Clause Billings- proforma for rollin    |               |              |                  | 103,480  |                     | 103,480                                      |
| Merger Surcredit                             |               |              |                  | (119,812)  |                     | (119,812)                                    |
| Value Delivery Surcredit                     |               |              |                  | (14,613)   |                     | (14,813)                                     |
| VDT Amortization & Surcredit Adjustment      |               |              |                  | 619  |                     | 619  |
| Adjustment to Reflect Year-End Customers     |               |              |                  | (234,645)  |                     | (251,820)                                    |
| Total Rate MP Primary                        |               |              |                  | <u>\$ 4,793,968</u>  |                     | <u>\$ 5,147,088</u>                          |
| Proposed Increase                            |               |              |                  |  |                     | 353,120                                      |
| Percentage Increase                          |               |              |                  |  |                     | 7.37%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)          | (3)          | (4)              | (5)  | (6)                 | (7)  |
|--|--------------|--------------|------------------|--|---------------------|--|
|  | Bills/<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>LMPP - Rate Code 683</b>                  |              |              |                  |  |                     |  |
| Number of Customers                          | 25           |              |                  |  | \$ 120.00           | \$ 3,000                                     |
| On-Peak Demand                               | 160,687      |              | \$ 4.14          | \$ 665,243   | \$ 5.39             | 866,102                                      |
| Off-Peak Demand                              | 160,665      |              | \$ 0.73          | 117,266  | \$ 0.73             | 117,286                                      |
| Energy<br>Minimum Annual Billings            |              | 56,287,872   | \$ 0.02094       | 1,178,668<br>(8,760)   | \$ 0.02000          | 1,125,757<br>(11,405)                        |
| Total Calculated at Base Rates               |              |              |                  | \$ 1,952,437   |                     | \$ 2,100,740                                 |
| Correction Factor                            |              |              |                  | 1.000000   |                     | 1.000000                                     |
| Total After Application of Correction Factor |              |              |                  | <u>\$ 1,952,437</u>  |                     | <u>\$ 2,100,740</u>                          |
| Fuel Clause Billings - proforma for rollin   |              |              |                  | 43,817   |                     | 43,817                                       |
| Merger Surcredit                             |              |              |                  | (46,196)   |                     | (46,196)                                     |
| Value Delivery Surcredit                     |              |              |                  | (5,581)  |                     | (5,581)                                      |
| VDT Amortization & Surcredit Adjustment      |              |              |                  | 236  |                     | 236  |
| Adjustment to Reflect Year-End Customers     |              |              |                  |  |                     |  |
| Total Rate LMP Primary                       |              |              |                  | <u>\$ 1,944,714</u>  |                     | <u>\$ 2,093,017</u>                          |
| Proposed Increase                            |              |              |                  |  |                     | <b>148,303</b>                               |
| Percentage Increase                          |              |              |                  |  |                     | 7.63%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003

| (1)  | (2)          | (3)          | (4)              | (5)  | (6)                 | (7)  |
|--|--------------|--------------|------------------|--|---------------------|--|
|  | Bills/<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <u>LMPT -Rate Code 664</u>                   |              |              |                  |  |                     |  |
| Number of Customers                          | 82           |              |                  |  | \$ 120.00           | \$ 9,840                                     |
| On-Peak Demand                               | 400,744      |              | \$ 3.80          | \$ 1,522,827   | \$ 4.85             | 1,943,608                                    |
| Off-Peak Demand                              | 381,990      |              | \$ 0.73          | 278,853  | \$ 0.73             | 278,853                                      |
| Energy                                       |              | 135,342,000  | \$ 0.02094       | 2,834,061  | \$ 0.02000          | 2,706,840                                    |
| Minimum Annual Billings                      |              |              |                  | 197,968  |                     | 252,670                                      |
| Total Calculated at Base Rates               |              |              |                  | \$ 4,833,710   |                     | \$ 5,191,811                                 |
| Correction Factor                            |              |              |                  | 1.002250   |                     | 1.002250                                     |
| Total Afler Application of Correction Factor |              |              |                  | <u>\$ 4,822,860</u>  |                     | <u>\$ 5,180,158</u>                          |
| Fuel Clause Billings - proforma for rollin   |              |              |                  | 106,921  |                     | 106,921                                      |
| Merger Surcredit                             |              |              |                  | (114,208)  |                     | (114,208)                                    |
| Value Delivery Surcredit                     |              |              |                  | (13,680)   |                     | (13,680)                                     |
| VDT Amortization & Surcredit Adjustment      |              |              |                  | 579  |                     | 579  |
| Adjustment to Reflect Year-End Customers     |              |              |                  | (703,778)  |                     | (755,917)                                    |
| Total Rate LMP Transmission                  |              |              |                  | <u>\$ 4,098,693</u>  |                     | <u>\$ 4,403,852</u>                          |
| Proposed Increase                            |              |              |                  |  |                     | 305,159                                      |
| Percentage Increase                          |              |              |                  |  |                     | 7.45%  |
| Total LMP                                    |              |              |                  | <u>\$ 6,043,407</u>  |                     | <u>\$ 6,496,869</u>                          |
| Proposed Increase                            |              |              |                  |  |                     | 453,462                                      |
| Percentage Increase                          |              |              |                  |  |                     | 7.50%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)          | (3)          | (4)              | (5)  | (6)                 | (7)  |
|--|--------------|--------------|------------------|--|---------------------|--|
|  | Bills/<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>Special Contract - Rate Code 720</b>      |              |              |                  |  |                     |  |
| Non-Interruptible Demand                     | 408,840      |              | \$ 3.89          | \$ 1,590,387   | \$ 3.98             | \$ 1,627,182                                 |
| Interruptible Demand                         |              |              | \$ 1.86          |  | \$ 1.95             |  |
| Energy                                       |              | 256,027,222  | \$ 0.02148       | 5,499,465  | \$ 0.02200          | 5,632,599                                    |
| Total Calculated at Base Rates               |              |              |                  | \$ 7,089,852   |                     | \$ 7,259,781                                 |
|  |              |              |                  | 1.000241   |                     | 1.000241                                     |
| Total After Application of Correction Factor |              |              |                  | <u>\$ 7,088,146</u>  |                     | <u>\$ 7,258,034</u>                          |
| Fuel Clause Billings * proforma for rollin   |              |              |                  | 206,387  |                     | 206,387                                      |
| Merger Surcredit                             |              |              |                  | (170,246)  |                     | (170,246)                                    |
| Value Delivery Surcredit                     |              |              |                  | (20,695)   |                     | (20,695)                                     |
| VDT Amortization & Surcredit Adjustment      |              |              |                  | 876  |                     | 876  |
| Adjustment to Reflect Year-End Customers     |              |              |                  |  |                     |  |
| Total WestVaCo Special Contract              |              |              |                  | <u>\$ 7,104,468</u>  |                     | <u>\$ 7,274,357</u>                          |
| Proposed Increase                            |              |              |                  |  |                     | 169,889                                      |
| Percentage increase                          |              |              |                  |  |                     | 2.39%  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30,

| (1)  | (2)                  | (3)          | (4)              | (5)   | (6)                 | (7)  |
|--|----------------------|--------------|------------------|---|---------------------|--|
|  | Bills /<br>KVA<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>NCL Rate<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <u>Special Contract Billing Code 723,724,725,726</u> |                      |              |                  |   |                     |  |
| Non-interruptible/On-Peak Deme                       | 962,182              |              | \$ 5.58          | \$ 5,368,976  | \$ 4.39             | \$ 4,223,979                                 |
| interruptible/Off-Peak Demand                        | 987,308              |              | \$ 1.03          | \$ 1,016,927  | \$ 0.73             | \$ 720,735                                   |
| CSR Credit   | 887,629              |              | \$ (3.10)        | \$ (2,751,649)  | \$ (3.10)           | \$ (2,751,649)                               |
| Energy   |                      | 224,499,600  | \$ 0.01750       | 3,928,743   | 5 0.02200           | 4,938,991                                    |
| Total Calculated at Base Rates                       |                      |              |                  | \$ 7,562,997  |                     | \$ 7,132,056                                 |
| Correction Factor                                    |                      |              |                  | 1.000000  |                     | 1.000000                                     |
| Total After Application of Correction Factor         |                      |              |                  | <u>\$ 7,562,997</u>   |                     | <u>\$ 7,132,057</u>                          |
| Fuel Clause Billings - proforma for rollin           |                      |              |                  | 200,577   |                     | 200,577                                      |
| Merger Surcredit                                     |                      |              |                  | (283,568)   |                     | (283,568)                                    |
| Value Delivery Surcredit                             |                      |              |                  | (34,456)  |                     | (34,456)                                     |
| VDT Amortization & Surcredit Adjustment              |                      |              |                  | 1,459   |                     | 1,459  |
| Adjustment to Reflect Year-End Customers             |                      |              |                  |   |                     |  |
| Total NAS Special Contract                           |                      |              |                  | <u>\$ 7,447,010</u>   |                     | <u>\$ 7,016,069</u>                          |
| Proposed increase                                    |                      |              |                  |   |                     | (430,941)                                    |
| Percentage Increase                                  |                      |              |                  |   |                     | -5.79%                                       |



**KENTUCKY UTILITIES COMPANY**  
**CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE**  
**BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003**

| (1)   | (2)          | (3)          | (4)              | (5)   | (6)                 | (7)  |
|---|--------------|--------------|------------------|---|---------------------|--|
|   | Bills/<br>KW | Total<br>KWH | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br><small>(see Exhibit 9)</small> | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <u>FWP - Rate Code 740 *(c)</u>                     |              |              |                  |   |                     |  |
| Energy  |              | 0            | \$ 0.03598       |   | \$ 0.03598          |  |
| <b>Total Calculated at Base Rates</b>               |              |              |                  |   |                     |  |
| <b>Correction Factor</b>                            |              |              |                  |   |                     |  |
| <b>Total After Application of Correction Factor</b> |              |              |                  |   |                     |  |
| <b>INCREASE IN BASE RATES REVENUE</b>               |              |              |                  |   |                     |  |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

|   | (1)       | (2) | (3)             | (4)              | (5)  | (6)                 | (7)  |
|---|-----------|-----|-----------------|------------------|--|---------------------|--|
|   |           |     | Total<br>Lights | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| <b>Street Lighting</b>                  | KWH       |     |                 |                  |  |                     |  |
| <b>Incandescent Street Lighting (1)</b> |           |     |                 |                  |  |                     |  |
| I-1000-std                              | 42,730    |     | 1,203           | \$ 2.11          | \$ 2,538   | \$ 2.26             | \$ 2,719                                     |
| I-2500-std                              | 1,293,398 |     | 18,532          | \$ 2.57          | 47,627   | \$ 2.75             | 50,963                                       |
| I-4000-std                              | 768,860   |     | 7,034           | \$ 3.68          | 25,885   | \$ 3.94             | 27,714                                       |
| I-6000-std                              | 12,762    |     | 84              | \$ 4.89          | 411  | \$ 5.24             | 440  |
| I-10000-std                             | 0         |     | 0               | \$ 6.57          |  | \$ 7.03             |  |
| I-1000-orn                              | 0         |     | 0               | \$ 2.72          |  | \$ 2.91             |  |
| I-2500-orn                              | 6,432     |     | 96              | \$ 3.32          | 319  | \$ 3.55             | 341  |
| <b>I-4000-orn</b>                       | 58,859    |     | 540             | \$ 4.56          | 2,462  | \$ 4.88             | 2,635  |
| I-6000-orn                              | 7,152     |     | 48              | \$ 5.07          | 282  | \$ 6.29             | 302  |
| I-10000-orn                             | 0         |     | 0               | \$ 8.07          |  | \$ 8.64             |  |
| <b>Mercury Vapor Street Lighting</b>    |           |     |                 |                  |  |                     |  |
| MV-3500-std                             | 0         |     | 0               | \$ 5.36          |  | \$ 6.60             |  |
| MV-7000-std                             | 1,199,867 |     | 17,126          | \$ 6.19          | 106,010  | \$ 6.63             | 113,545                                      |
| MV-10000-std                            | 1,220,047 |     | 12,442          | \$ 7.14          | 88,836   | \$ 7.64             | 95,057                                       |
| MV-20000-std                            | 3,216,852 |     | 20,879          | \$ 8.39          | 175,175  | \$ 8.98             | 187,493                                      |
| MV-3500-orn                             | 0         |     | 0               | \$ 7.60          |  | \$ 8.14             |  |
| MV-7000-orn                             | 102,988   |     | 1,492           | \$ 8.30          | 12,384   | \$ 8.89             | 13,264                                       |
| MV-10000-orn                            | 674,672   |     | 6,882           | \$ 9.01          | 62,007   | \$ 9.65             | 66,411                                       |
| MV-20000-orn                            | 2,851,854 |     | 18,790          | \$ 9.89          | 185,833  | \$ 10.59            | 198,986                                      |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003

| (1)   | (2)        | (3)             | (4)              | (5)   | (6)                 | (7)  |
|---|------------|-----------------|------------------|---|---------------------|--|
|   |            | Total<br>Lights | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| Street Lighting -continued                          | KWH        |                 |                  | (see Exhibit 9)                             |                     |  |
| High Pressure Sodium Street Lighting                |            |                 |                  |   |                     |  |
| HPS-4000-std  | 1,706,461  | 84,016          | \$ 4.68          | 393,195                                     | \$ 5.00             | 420,080                                      |
| HPS-5800-std  | 2,821,602  | 97,770          | \$ 5.08          | 496,672                                     | \$ 5.43             | 530,891                                      |
| HPS-9500-std  | 8,471,266  | 211,989         | \$ 5.72          | 1,212,577                                   | \$ 6.11             | 1,295,253                                    |
| HPS-22000-std                                       | 4,975,937  | 60,024          | \$ 8.44          | 506,603                                     | \$ 9.02             | 541,416                                      |
| HPS-50000-std                                       | 1,435,313  | 8,864           | \$ 13.62         | 120,728                                     | \$ 14.55            | 128,971                                      |
| HPS-4000-orn  | 953,042    | 47,651          | \$ 7.13          | 339,752                                     | \$ 7.62             | 363,101                                      |
| HPS-5800-orn  | 2,927,333  | 105,857         | \$ 7.53          | 797,103                                     | \$ 8.04             | 851,090                                      |
| HPS-9500-orn  | 1,092,981  | 27,793          | \$ 8.35          | 232,072                                     | \$ 8.92             | 247,914                                      |
| HPS-22000-orn                                       | 3,822,835  | 47,250          | \$ 11.06         | 522,585                                     | \$ 11.81            | 558,023                                      |
| HPS-50000-orn                                       | 827,689    | 5,095           | \$ 16.23         | 82,692                                      | \$ 17.34            | 88,347                                       |
| Sub-Total   | 40,490,932 | 801,457         |                  | \$ 5,413,746                                |                     | \$ 5,784,957                                 |
| Partial Month billings                              |            |                 |                  | 86,450                                      |                     | 92,378                                       |
| Total Calculated at Base Rates                      |            |                 |                  | \$ 5,500,195                                |                     | \$ 5,877,334                                 |
| Correction Factor                                   |            |                 |                  | 1.000190                                    |                     | 1.000190                                     |
| Total After <b>Application</b> of Correction Factor |            |                 |                  | \$ 5,499,149                                |                     | \$ 5,876,216                                 |
| Fuel Clause Billings- proforma for rollin           |            |                 |                  | 30,519                                      |                     | 30,519                                       |
| Merger Surcredit                                    |            |                 |                  | (129,056)                                   |                     | (129,056)                                    |
| Value Delivery Surcredit                            |            |                 |                  | (15,744)                                    |                     | (15,744)                                     |
| Adjustment to Reflect Year-End Customers            |            |                 |                  | 16,889                                      |                     | 18,047                                       |
| VDT Amortization & Surcredit Adjustment             |            |                 |                  | 667   |                     | 667  |
| Total Rate <b>St. Lt.</b>                           |            |                 |                  | \$ 5,402,425                                |                     | \$ 5,780,650                                 |
| Proposed increase                                   |            |                 |                  |   |                     | 378,225                                      |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

|                                     | (1) | (2)     | (3)          | (4)           | (5)   | (6)              | (7)                                 |
|-------------------------------------|-----|---------|--------------|---------------|---|------------------|-------------------------------------|
|                                     |     | KWH     | Total Lights | Present Rates | Calculated Revenue @ Present Rates<br>(see Exhibit 9) | Settlement Rates | Calculated Revenue @ Proposed Rates |
| <b>Street Lighting-- Decorative</b> |     |         |              |               |   |                  |                                     |
| HPS-A-4000-Dec                      |     | 0       | 0            | \$ 9.74       | \$  | \$ 10.40         | \$                                  |
| HPS-A-5800-Dec                      |     | 1,992   | 72           | \$ 10.24      | 737   | \$ 10.94         | 788                                 |
| HPS-A-9500-Dec                      |     | 48,347  | 1,231        | \$ 10.87      | 13,381  | \$ 11.61         | 14,292                              |
| HPS-A-4000-His                      |     | 29,279  | 1,464        | \$ 15.28      | 22,370  | \$ 16.32         | 23,892                              |
| HPS-A-5800-His                      |     | 11,621  | 420          | \$ 15.77      | 6,623   | \$ 16.85         | 7,077                               |
| HPS-A-9500-His                      |     | 144,939 | 3,677        | \$ 16.41      | 60,340  | \$ 17.53         | 64,458                              |
| HPS-4000 col                        |     | 130,976 | 6,556        | \$ 6.42       | 42,090  | \$ 6.86          | 44,974                              |
| HPS-5800 col                        |     | 174,991 | 6,208        | \$ 6.83       | 42,401  | \$ 7.30          | 45,318                              |
| HPS-9500 col                        |     | 371,159 | 9,455        | \$ 7.40       | 69,967  | \$ 7.90          | 74,695                              |
| HPS-5800 coa                        |     | 0       | 0            |               |   |                  |                                     |
| HPS-9500 coa                        |     | 0       | 0            |               |   |                  |                                     |
| HPS-5800 con                        |     | 634,990 | 22,944       | \$ 11.80      | 270,739   | \$ 12.60         | 289,094                             |
| HPS-9500 con                        |     | 173,631 | 4,452        | \$ 14.05      | 62,551  | \$ 15.01         | 66,825                              |
| HPS-22000 con                       |     | 268,604 | 3,329        | \$ 16.29      | 54,229  | \$ 17.40         | 57,925                              |
| HPS-50000 can                       |     | 157,439 | 939          | \$ 21.09      | 19,804  | \$ 22.53         | 21,156                              |
| HPS-16000 Granville                 |     | 3,611   | 63           | \$ 44.60      | 2,810   | \$ 47.64         | 3,001                               |
| HPS-16000 Granville A               |     | 83,872  | 1,666        | \$ 35.84      | 59,709  | \$ 38.28         | 63,774                              |
| HPS-16000 Granville B               |     | 12,666  | 256          | \$ 58.78      | 15,048  | \$ 62.79         | 16,074                              |
| HPS-16000 Granville C               |     | 19,859  | 399          | \$ 39.50      | 15,761  | \$ 42.19         | 16,834                              |
| HPS-16000 Granville D               |     | 2,103   | 45           | \$ 41.12      | 1,850   | \$ 44.92         | 2,021                               |
| HPS-16000 Granville E               |     | 649     | 13           | \$ 42.24      | 549   | \$ 46.14         | 600                                 |
| HPS-16000 Granville F               |     | 3,500   | 70           | \$ 56.94      | 3,986   | \$ 62.21         | 4,355                               |
| HPS-16000 Granville G               |     | 6,093   | 122          | \$ 55.32      | 6,749   | \$ 59.09         | 7,209                               |
| HPS-16000 Granville H               |     | 0       | 0            | \$ 40.70      |   | \$ 44.48         |                                     |
| HPS-16000 Granville I               |     | 1,296   | 26           | \$ 36.96      | 961   | \$ 40.38         | 1,050                               |
| HPS-16000 Granville A1              |     | 8,946   | 179          | \$ 51.66      | 9,247   | \$ 55.18         | 9,877                               |
| HPS-16000 Granville B1              |     | 0       | 0            | \$ 74.60      |   | \$ 79.69         |                                     |
| HPS-16000 Granville E I             |     | 649     | 13           | \$ 58.06      | 755   | \$ 63.43         | 825                                 |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)   | (2)       | (3)          | (4)           | (5)   | (6)              | (7)                                 |
|---|-----------|--------------|---------------|---|------------------|-------------------------------------|
|   | KWH       | Total Lights | Present Rates | Calculated Revenue @ Present Rates<br>(see Exhibit 9) | Settlement Rates | Calculated Revenue @ Proposed Rates |
| <b>Street Lighting-- Decorative - continued</b> |           |              |               |   |                  |                                     |
| HPS-16000 Granville A2                          | 7,930     | 160          | \$ 51.66      | 8,266   | \$ 55.18         | 8,829                               |
| HPS-16000 Granville 83                          | 2,101     | 42           | \$ 52.78      | 2,217   | \$ 56.38         | 2,368                               |
| HPS-16000 Granville G I                         | 1,190     | 24           | \$ 55.32      | 1,328   | \$ 59.09         | 1,418                               |
| HPS-16000 Granville 82                          | 11,773    | 236          | \$ 53.92      | 12,725  | \$ 58.91         | 13,903                              |
| Sub-Total                                       | 2,314,206 | 64,061       |               | \$ 807,191  |                  | \$ 862,631                          |
| Partial Month billings                          |           |              |               | 6,975   |                  | 7,454                               |
| Total Calculated at Base Rates                  |           |              |               | \$ 814,165  |                  | \$ 870,085                          |
| Correction Factor                               |           |              |               | 0.999016  |                  | 0.999016                            |
| Total After Application of Correction Factor    |           |              | 141,960       | \$ 814,967  |                  | \$ 870,942                          |
| Fuel Clause Billings- proforma for rollin       |           |              |               | 1,736   |                  | 1,736                               |
| Merger Surcredit                                |           |              |               | (19,076)  |                  | (19,076)                            |
| Value Delivery Surcredit                        |           |              |               | (2,409)   |                  | (2,409)                             |
| Adjustment to Reflect Year-End Customers        |           |              |               | 12,240  |                  | 13,081                              |
| VDT Amortization & Surcredit Adjustment         |           |              |               | 102   |                  | 102                                 |
| Total Rate Dec St. Lt.                          |           |              |               | \$ 807,559  |                  | \$ 864,374                          |
| Proposed Increase                               |           |              |               |   |                  | 56,815                              |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)                                    | (2)        | (3)          | (4)           | (5)   | (6)              | (7)                                 |
|--|------------|--------------|---------------|---|------------------|-------------------------------------|
|  | KWH        | Total Lights | Present Rates | Calculated Revenue @ Present Rates<br>(see Exhibit 9) | Settlement Rates | Calculated Revenue @ Proposed Rates |
| <b>Private Outdoor Lighting</b>        |            |              |               |   |                  |                                     |
| <b>Standard (Served Overhead)</b>      |            |              |               |   |                  |                                     |
| MV-7000-OB                             | 2,542,058  | 36,524       | \$ 7.12       | \$ 260,051  | \$ 7.61          | \$ 277,948                          |
| MV-20000-Cobr                          | 1,214,151  | 8,012        | \$ 8.41       | 67,381  | \$ 8.98          | 11,948                              |
| HPS-5800-OB                            | 70,769     | 2,534        | \$ 4.05       | 10,263  | \$ 4.33          | 10,972                              |
| HPS-9500-OB                            | 13,810,099 | 350,344      | \$ 4.62       | 1,618,589   | \$ 4.94          | 1,730,699                           |
| HPS-22000-Cobr                         | 1,268,099  | 15,631       | \$ 8.44       | 131,926   | \$ 9.02          | 140,992                             |
| HPS-50000-Cobr                         | 4,403,511  | 27,021       | \$ 13.62      | 368,026   | \$ 14.55         | 393,156                             |
| <b>Directional (Served Overhead)</b>   |            |              |               |   |                  |                                     |
| HPS-9500                               | 4,431,410  | 112,584      | \$ 5.60       | 630,470   | \$ 5.98          | 673,252                             |
| HPS-22000                              | 5,191,668  | 64,058       | \$ 7.93       | 507,980   | \$ 8.47          | 542,571                             |
| HPS-50000                              | 13,251,698 | 81,371       | \$ 12.08      | 982,962   | \$ 12.90         | 1,049,686                           |
| <b>Decorative (Served Underground)</b> |            |              |               |   |                  |                                     |
| HPS-4000 coa decr                      | 478        | 24           | \$ 9.74       | 234   | \$ 10.40         | 250                                 |
| HPS-5800 coa decr                      | 3,464      | 120          | \$ 10.24      | 1,229   | \$ 10.94         | 1,313                               |
| HPS-9500 coa decr                      | 76,594     | 1,961        | \$ 10.88      | 21,336  | \$ 11.62         | 22,787                              |
| HPS-4000 coa hist                      | 19,923     | 996          | \$ 15.28      | 15,219  | \$ 16.32         | 16,255                              |
| HPS-5800 coa hist                      | 11,318     | 410          | \$ 15.77      | 6,466   | \$ 16.85         | 6,909                               |
| HPS-9500 coa hist                      | 222,699    | 5,706        | \$ 16.42      | 93,693  | \$ 17.54         | 100,083                             |
| HPS-5800 coa                           | 0          | 0            | \$ 23.47      |   | \$ 25.07         |                                     |
| HPS-9500 coa                           | 64,116     | 1,644        | \$ 24.09      | 39,604  | \$ 25.73         | 42,300                              |
| HPS-4000 col                           | 12,719     | 636          | \$ 6.42       | 4,083   | \$ 6.86          | 4,363                               |
| HPS-5800 col                           | 35,199     | 1,272        | \$ 6.83       | 8,688   | \$ 7.30          | 9,286                               |
| HPS-9500 col                           | 509,423    | 13,046       | \$ 7.40       | 96,540  | \$ 7.90          | 103,063                             |
| HPS-5800 con                           | 16,935     | 612          | \$ 11.80      | 7,222   | \$ 12.60         | 7,711                               |
| HPS-9500 con                           | 90,992     | 2,341        | \$ 14.05      | 32,891  | \$ 15.01         | 35,138                              |
| HPS-22000 con                          | 546,476    | 6,756        | \$ 16.29      | 110,055   | \$ 17.40         | 117,554                             |
| HPS-50000 con                          | 1,624,326  | 10,033       | \$ 21.09      | 211,596   | \$ 22.53         | 226,043                             |

KENTUCKY UTILITIES COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)        | (3)             | (4)              | (5)  | (6)                 | (7)  |
|--|------------|-----------------|------------------|--|---------------------|--|
|  | KWH        | Total<br>Lights | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| Private Outdoor Lighting - continued         |            |                 |                  |  |                     |  |
| Metal Halide Directional                     |            |                 |                  |  |                     |  |
| MH-12000                                     | 209,687    | 3,026           | \$ 8.27          | 25,025   | \$ 8.83             | 26,720                                       |
| MH-12000-WP                                  | 47,049     | 679             | \$ 10.10         | 6,858  | \$ 10.79            | 7,326  |
| MH-12000-MP                                  | 3,328      | 48              | \$ 16.10         | 773  | \$ 17.20            | 826  |
| MH-32000                                     | 3,174,956  | 21,013          | \$ 11.46         | 240,809  | \$ 12.24            | 257,199                                      |
| MH-32000-WP                                  | 759,074    | 5,025           | \$ 13.30         | 66,833   | \$ 14.21            | 71,405                                       |
| MH-32000-MP                                  | 162,468    | 1,085           | \$ 19.29         | 20,930   | \$ 20.81            | 22,362                                       |
| MH-107800                                    | 5,180,248  | 14,272          | \$ 23.67         | 337,818  | \$ 25.28            | 360,796                                      |
| MH-107800-WP                                 | 1,426,641  | 3,899           | \$ 26.22         | 102,232  | \$ 28.01            | 109,211                                      |
| MH-107800-MP                                 | 290,486    | 806             | \$ 31.50         | 25,389   | \$ 33.65            | 27,122                                       |
| Metal Halide Contemporary                    |            |                 |                  |  |                     |  |
| MH-12000-con                                 | 36,536     | 528             | \$ 9.29          | 4,905  | \$ 9.92             | 5,238  |
| MH-12000-con-MP                              | 121,818    | 1,764           | \$ 17.13         | 30,217   | \$ 18.30            | 32,281                                       |
| MH-32000-con                                 | 306,662    | 2,035           | \$ 12.90         | 26,252   | \$ 13.78            | 28,042                                       |
| MH-32000-con-MP                              | 665,690    | 4,424           | \$ 20.73         | 91,710   | \$ 22.14            | 97,947                                       |
| MH-107800-con                                | 314,967    | 869             | \$ 26.04         | 22,629   | \$ 27.82            | 24,176                                       |
| MH-107800-con-MP                             | 694,079    | 1,925           | \$ 33.88         | 65,219   | \$ 36.19            | 69,666                                       |
| Sub-Total                                    | 62,811,814 | 805,034         |                  | \$ 6,294,099   |                     | \$ 6,724,596                                 |
| Partial Month billings                       |            |                 |                  | 49,671   |                     | 53,069                                       |
| Total Calculated at Base Rates               |            |                 |                  | \$ 6,343,770   |                     | \$ 6,777,664                                 |
| Correction Factor                            |            |                 |                  | 1.000377   |                     | 1.000377                                     |
| Total After Application of Correction Factor |            |                 |                  | \$ 6,341,376   |                     | \$ 6,775,107                                 |
| Fuel Clause Billings- proforma for rollin    |            |                 |                  | 48,198   |                     | 48,198                                       |
| Merger Surcredit                             |            |                 |                  | (149,592)  |                     | (149,592)                                    |
| Value Delivery Surcredit                     |            |                 |                  | (18,946)   |                     | (18,946)                                     |
| VDT Amortization & Surcredit Adjustment      |            |                 |                  | 802  |                     | 802  |
| Adjustment to Reflect Year-End Customers     |            |                 |                  | 71,430   |                     | 76,316                                       |
| Total Rate P.O. Lt.                          |            |                 |                  | \$ 6,293,269   |                     | \$ 6,731,885                                 |
| Proposed Increase                            |            |                 |                  |  |                     | 438,616                                      |

KENTUCKY UTILITIES COMPANY  
 ACTION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| (1)  | (2)       | (3)             | (4)              | (5)  | (6)                 | (7)  |
|--|-----------|-----------------|------------------|--|---------------------|--|
|  | KWH       | Total<br>Lights | Present<br>Rates | Calculated<br>Revenue<br>@ Present<br>Rates<br>(see Exhibit 9) | Settlement<br>Rates | Calculated<br>Revenue<br>@ Proposed<br>Rates |
| Customer Outdoor Lighting                    |           |                 |                  |  |                     |  |
| Inc-2500 (move to St. Lt) (1)                | 9,660     | 144             | \$ 5.12          | \$ 737   | \$ 7.61             | \$ 1,096                                     |
| MV-3500 (move to St. Lt) (1)                 | 20,097    | 478             | \$ 6.25          | 2,988  | \$ 7.61             | 3,638  |
| MV-7000 (move to St. Lt.) (1)                | 8,411,057 | 120,910         | \$ 7.14          | 863,297  | \$ 7.61             | 920,125                                      |
| Special Lighting                             | 950,602   | 6,274           | \$ 6.16          | 38,648   | \$ 6.58             | 41,283                                       |
| Special Lighting                             | 359,447   | 2,218           | \$ 8.21          | 18,210   | \$ 8.77             | 19,452                                       |
| Subtotal                                     | 9,750,863 | 130,024         |                  | \$ 923,880   |                     | \$ 985,593                                   |
| Partial month billings                       |           |                 |                  | 5,701  |                     | 6,082  |
| Total Calculated at Base Rates               |           |                 |                  | \$ 929,581   |                     | \$ 991,675                                   |
| Correction Factor                            |           |                 |                  | 1.000087   |                     | 1.000087                                     |
| Total After Application of Correction Factor |           |                 |                  | \$ 929,500   |                     | \$ 991,589                                   |
| Fuel Clause Billings- proforma for rollin    |           |                 |                  | 7,246  |                     | 7,246  |
| Merger Surcredit                             |           |                 |                  | (21,779)   |                     | (21,779)                                     |
| Value Delivery Surcredit                     |           |                 |                  | (2,723)  |                     | (2,723)                                      |
| VDT Amortization & Surcredit Adjustment      |           |                 |                  | 115  |                     | 115  |
| Adjustment to Reflect Year-End Customers     |           |                 |                  | (19,194)   |                     | (20,476)                                     |
| Total Rate C.O. Lt.                          |           |                 |                  | 5 893,164  |                     | 5 953,970                                    |
| Proposed Increase                            |           |                 |                  |  |                     | 60.807                                       |



Louisville Gas and Electric Company  
 Summary of Settlement Electric Rate Increase by Rate Class  
 For the 12 months Ended September 30,2002

|                                   | Adjusted<br>Billings at<br>Current Rates | Proposed<br>Increase In<br>Revenue<br>As Filed | Percentage<br>Increase | Increase Per<br>Settlement | Percentage<br>increase | Percentage<br>of Total |
|-----------------------------------|--|--|------------------------|----------------------------|------------------------|------------------------|
| <b>Residential</b>                | \$ 220,310,529                           | \$ 26,430,885                                  | 12.00%                 | \$ 18,708,395              | 8.49%                  | 43.148%                |
| General Service                   | 83,504,883                               | 8,978,115                                      | 10.75%                 | 6,483,208                  | 7.76%                  | 14.952%                |
| Large Commercial Rate LC          | 132,177,625                              | 13,708,637                                     | 10.37%                 | 10,242,386                 | 7.75%                  | 23.622%                |
| Industrial Power Rate LP          | 100,837,138                              | 10,100,134                                     | 10.02%                 | 5,625,092                  | 5.58%                  | 12.973%                |
| Special Contracts                 | 28,070,944                               | 3,028,038                                      | 10.79%                 | 1,422,016                  | 5.07%                  | 3.280%                 |
| Street Lighting                   | 11,678,144                               | 1,386,185                                      | 11.87%                 | 877,787                    | 7.52%                  | 2.024%                 |
| <b>TOTAL ULTIMATE CONSUMERS</b>   | <b>\$ 576,579,264</b>                    | <b>\$ 63,631,994</b>                           | <b>11.04%</b>          | <b>\$ 43,358,883</b>       | <b>7.52%</b>           | <b>100.00%</b>         |
| Increase in Miscellaneous Charges | 848,569                                  | 133,331  |                        | 45,302                     |                        |                        |
| <b>TOTAL INCREASE IN REVENUE</b>  | <b>\$ 577,427,833</b>                    | <b>\$ 63</b>                                   | <b>11.04%</b>          | <b>\$ 43,404,185</b>       | <b>7.52%</b>           |                        |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 SUMMARY OF SETTLEMENT ELECTRIC RATE INCREASE BY RATE CLASS  
 BASED ON ADJUSTED SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 REVISED TO INCLUDE JANUARY 2004 ECR BASE RATES ROLLIN

| Rate Class                        | Calculated       |                                 | Settlement          | Percentage |
|-----------------------------------|------------------|---------------------------------|---------------------|------------|
|                                   | Test Period      | Billings as Modified to Reflect |                     |            |
|                                   | January 2004     | January 2004                    | Increase in Revenue | Increase   |
|                                   | ECR Rollin Rates | ECR Rollin Rates                |                     |            |
| Residential Rate R                | \$ 219,577,320   | 733,209,04                      |                     |            |
| Residential Water Heating         |                  | 220,310,529                     | \$ 18,706,395       | 8.49%      |
| Total Residential                 |                  |                                 |                     |            |
| General Service Rate GS           | 83,495,405       |                                 |                     |            |
| Commercial Water Heating          | 9,479            |                                 |                     |            |
| Total General Service             | 83,504,883       |                                 | 6,483,208           | 7.78%      |
| Large Commercial Rate LC          |                  |                                 |                     |            |
| Primary                           | 6,577,911        |                                 |                     |            |
| Secondary                         | 100,311,410      |                                 |                     |            |
| Primary                           | 10,663,797       |                                 |                     |            |
| Secondary                         | 14,604,508       |                                 |                     |            |
| Total Rate LCTOD                  | 132,177,625      |                                 | 10,242,386          | 7.75%      |
| Industrial Power Rate LP          |                  |                                 |                     |            |
| Primary                           | 4,567,163        |                                 |                     |            |
| Secondary                         | 25,929,168       |                                 |                     |            |
| Transmission                      | 11,530,567       |                                 |                     |            |
| Primary                           | 56,811,559       |                                 |                     |            |
| Secondary                         | 1,998,682        |                                 |                     |            |
| Total Rate LPTOD                  | 100,837,138      |                                 | 5,625,092           | 5.58%      |
| Special Contracts                 |                  |                                 |                     |            |
| Special Contracts                 | 6,890,944        |                                 |                     |            |
| Special Contracts                 | 4,895,550        |                                 |                     |            |
| Special Contracts                 | 6,624,286        |                                 |                     |            |
| Special Contracts                 | 7,845,834        |                                 |                     |            |
| Special Contracts                 | 1,814,330        |                                 |                     |            |
| Total Special Contracts           | 28,070,944       |                                 | 1,422,016           | 5.07%      |
| Public Street Lighting Rate PSL   | 4,910,190        |                                 |                     |            |
| Street Lighting Energy Rate SLE   | 142,487          |                                 |                     |            |
| Outdoor Lighting Rate OL          | 6,066,989        |                                 |                     |            |
| Traffic Lighting Rate TLE         | 559,489          |                                 |                     |            |
|                                   | 11,678,144       |                                 | 877,787             | 7.52%      |
| Total Ultimate Consumers          | \$ 576,575,264   | \$                              | 43,359,683          | 7.52%      |
| Increase in Miscellaneous Charges | \$ 715,236       | \$                              | 45,302              | 6.33%      |
| Total Increase in Revenue         | \$ 577,294,502   | \$                              | 43,404,185          | 7.52%      |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

|  | Billing Determinants | Jan. 2004<br>ECR<br>Roll-In<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Rollin | Calculated<br>Revenue<br>at Settlement<br>Rates |
|--|----------------------|--------------------------------------|--|---|---|
| <b>RESIDENTIAL RATE R</b>  |                      |                                      |  |   |   |
| Customer Charges   | 4,037,207            | \$ 3.40                              | \$ 13,726,504                                | \$ 5.00                                   | \$ 20,166,035                                   |
| Energy Charges   | <u>kWh's</u>         |                                      |  |   |   |
| First 600 kWh - Summer Season  | 704,635,241          | \$ 0.06149                           | 43,328,021                                   | \$ 0.05867                                | 41,481,877                                      |
| Over 600 kWh - Summer Season   | 876,768,392          | \$ 0.06319                           | 55,402,995                                   | \$ 0.05867                                | 51,615,355                                      |
| First 600kWh - Winter Season   | 1,267,566,536        | \$ 0.05669                           | 72,992,260                                   | \$ 0.05867                                | 75,799,160                                      |
| Over 600kWh -Winter Season   | 973,572,745          | \$ 0.04370                           | 42,545,129                                   | \$ 0.05687                                | 57,314,227                                      |
| Total Energy   |                      |                                      | <u>214,268,405</u>                           |   | <u>226,210,619</u>                              |
| Total Rate R @ baserates   | 3,842,544,916        |                                      | \$ 227,994,909                               |   | \$ 246,396,654                                  |
| <b>RESIDENTIALPREPAID METERING RPP</b>                               |                      |                                      |  |   |   |
| Facilities Charges   | 5,462                | \$ 2.05                              | \$ 11.197                                    | \$ 2.05                                   | \$ 11,197                                       |
| Customer Charges   | 5,462                | \$ 3.40                              | 16.571                                       | \$ 5.00                                   | 27.310  |
| Energy Charges   | <u>kWh's</u>         |                                      |  |   |   |
|  | 5,164,866            | \$ 0.05661                           | 293,416                                      | \$ 0.05667                                | 304,056   |
| Total Prepaid Metering RPP @ base rates                              |                      |                                      | \$ 323.184                                   |   | \$ 342,563                                      |
| <b>Subtotal @ base rates before application of correction factor</b> |                      |                                      | <b>\$ 228,318,093</b>                        |   | <b>\$ 246,739,217</b>                           |
| Correction Factor -  |                      | 1.002361                             |  | 1.002361                                  |   |
| <b>Subtotal @ base rates after application of Correction factor</b>  | <b>3,847,709,782</b> |                                      | <b>\$ 227,780,293</b>                        |   | <b>\$ 246,158,026</b>                           |
| Fuel Adjustment Clause. proforma for rollin                          |                      |                                      | (1,499,234)                                  |   | (1,499,234)                                     |
| Merger Surcredit   |                      |                                      | (6,469,016)                                  |   | (6,469,016)                                     |
| Value Delivery Surcredit   |                      |                                      | (1,464,356)                                  |   | (1,484,358)                                     |
| VDT Amortization & Surcredit Adjustment                              |                      |                                      | 17,356                                       |   | 17,356  |
| Adjustment to Reflect Year-End Customers                             | 21,505,743           |                                      | 1,232,279                                    |   | 1,336,006                                       |
| <b>TOTAL RESIDENTIAL RATES R &amp; RPP</b>                           |                      |                                      | <b><u>I 219,577,320</u></b>                  |   | <b><u>I 238,058,781</u></b>                     |
| <b>PROPOSED INCREASE</b>   |                      |                                      |  |   | <b>\$ 18,481,461</b>                            |
| Percentage Increase  |                      |                                      |  |   | 6.42%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| <u>Billing Determinants</u>  | <u>Jan. 2004<br/>ECR<br/>Roll-In<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|--|--|--|---|---|
| WATER HEATING RATE WH  |  |  |   |   |
| <b>Residential Water Heating</b>                                     |  |  |   |   |
| Customer Charges   | 73.228   | \$ 0.97  | \$ 71,031   | \$ -  |
| Energy Charges   | <u>kWh's</u>                                   |  |   |   |
| Summer Season  | 4,808,217                                      | \$ 0.04132   | 198.678   | \$ 0.05887  |
| Winter Season  | 12,388,791                                     | \$ 0.04132   | 511.905   | \$ 0.05887  |
|  | <u>17,197,008</u>                              |  |   |   |
| Total Residential Water Heating @ base rates                         | 17,197,008                                     | \$   | 781.612   | \$ 1,012,388  |
| <b>Commercial Water Heating</b>                                      |  |  |   |   |
| Customer Charges   | 1.501  | \$ 0.97  | \$ 1,456  | \$ -  |
| Energy Charges   | <u>kWh's</u>                                   |  |   |   |
| Summer Season  | 67.741   | \$ 0.04132   | 2,799   | \$ 0.07086  |
| Winter Season  | 141.564  | \$ 0.04132   | 5,849   | \$ 0.06313  |
|  | <u>209,305</u>                                 |  |   |   |
| Total Commercial Water Heating @ base rates                          | 209,305  | \$   | 10.104  | \$ 13,737   |
| <b>Subtotal @ base rates before application of correction factor</b> |  |  | <b>I 791,716</b>                                    | <b>\$ 1,026,125</b>                                       |
| Correction Factor -  |  | 1.003426   |   | 1.003426  |
| <b>Subtotal @ base rates after application of correction factor</b>  | 17,408,313                                     |  | <b>I 789,012</b>                                    | <b>I 1,022,621</b>  |
| Fuel Adjustment Clause - proforma for rollin                         |  |  | (10,373)  | (10,373)  |
| Merger Surcredit   |  |  | (21,169)  | (21,169)  |
| Value Delivery Surcredit   |  |  | (4,846)   | (4,846)   |
| VDT Amortization & Surcredit Adjustment                              |  |  | 57  | 57  |
| Adjustment to Reflect Year-End Customers                             | (229,190)                                      |  | (9,993)   | (13,095)  |
| <b>TOTAL WATER HEATING RATE WH</b>                                   |  |  | <b>I 742.688</b>                                    | <b>I 973,185</b>  |
| <b>PROPOSED INCREASE</b>   |  |  |   | <b>\$ 230,507</b>   |
| Percentage Increase  |  |  |   | 31.04%  |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| Billing Determinants   | Jan. 2004 ECR Roll-In Rates |               | Calculated Revenue at Present Rates |          | Settlement Rates with ECR Rollin |  | Calculated Revenue at Settlement Rates |  |
|--|-----------------------------|---------------|-------------------------------------|----------|----------------------------------|--|--|--|
|  |                             |               |                                     |          |                                  |  |  |  |
| <b>GENERAL SERVICE RATE GS</b>                                       |                             |               |                                     |          |                                  |  |  |  |
| Customer Charges - Single Phase                                      | 329,431                     | \$ 4.02       | \$ 1,324,313                        | \$ 10.00 | \$ 3,294,310                     |  |  |  |
| Customer Charges - Three Phase                                       | 156,788                     | \$ 8.05       | 1,282,143                           | 15.00    | 2,351,820                        |  |  |  |
| Energy Charges   |                             |               |                                     |          |                                  |  |  |  |
| Summer Season  |                             | <i>kWh's</i>  | 34,708,095                          | 0.0708   | 35,825,428                       |  |  |  |
| Winter Season  |                             | 505,580,412   | 48,734,488                          | 0.0633   | 50,502,433                       |  |  |  |
| Total Energy   |                             | 799,975,176   | 83,442,583                          |          | 86,327,861                       |  |  |  |
| Primary Service Discounts  |                             |               | (27,354)                            |          | (29,245)                         |  |  |  |
| Total Rate GS @ base rates   |                             | 1,305,555,588 | 86,001,685                          |          | 91,944,746                       |  |  |  |
| <b>SPACE HEATING RIDER TO RATE GS</b>                                |                             |               |                                     |          |                                  |  |  |  |
| Customer Charges   | 9,221                       | \$ 2.33       | 21,485                              |          |                                  |  |  |  |
| Energy Charges   |                             |               |                                     |          |                                  |  |  |  |
| Summer Season  |                             | <i>kWh's</i>  | 1,299,851                           | 0.07086  | 1,876,935                        |  |  |  |
| Winter Season  |                             | 29,731,262    | 2,999,589                           | 0.06313  |                                  |  |  |  |
| Total Space Heating Rider @ base rates                               |                             | 29,731,262    | 1,321,336                           |          | 1,876,935                        |  |  |  |
| <b>Subtotal @ base rates before application of correction factor</b> |                             |               | \$ 87,323,020                       |          | \$ 93,821,681                    |  |  |  |
| Correction Factor -  |                             |               |                                     | 0.999589 |                                  |  |  |  |
| <b>Subtotal @ base rates after application of correction factor</b>  |                             |               | \$ 87,358,902                       |          | \$ 93,860,233                    |  |  |  |
| Fuel Adjustment Clause - proforma for rollin                         |                             |               | (621,080)                           |          | (621,080)                        |  |  |  |
| Merger Surcredit   |                             |               | (2,417,927)                         |          | (2,417,927)                      |  |  |  |
| Value Delivery Surcredit   |                             |               | (551,407)                           |          | (551,407)                        |  |  |  |
| VDT Amortization & Surcredit Adjustment                              |                             |               | 6,447                               |          | 6,447                            |  |  |  |
| Adjustment to Reflect Year-End Customers                             |                             | (4,415,970)   | (279,531)                           |          | (301,226)                        |  |  |  |
| <b>TOTAL GENERAL SERVICE RATE GS &amp; SH RIDER</b>                  |                             |               | \$ 83,495,405                       |          | \$ 89,975,041                    |  |  |  |
| <b>PROPOSED INCREASE</b>   |                             |               |                                     |          | \$ 6,479,636                     |  |  |  |
| Percentage Increase  |                             |               |                                     |          | 7.76%                            |  |  |  |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| Billing Determinants  | Jan. 2004<br>ECR<br>Roll-in<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Rollin | Calculated<br>Revenue<br>at Settlement<br>Rates |
|---|--------------------------------------|--|---|---|
| <b>LARGE COMMERCIAL RATE LC - PRIMARY VOLTAGE</b>             |                                      |  |   |   |
| Customer Charges  | 531                                  | \$ 17.70 5 9,399                             | \$ 65.00 5                                | 34,515  |
| Demand Charges  | <i>kW-Months</i>                     |  |   |   |
| Summer Season   | <u>127,056</u>                       | \$ 8.44 1,072,353                            | \$ 12.32                                  | 1,565,330                                       |
| Winter Season   | <u>214,932</u>                       | \$ 5.64 1,212,216                            | \$ 9.52                                   | 2,046,153                                       |
|   | <u>341,968</u>                       |  |   |   |
| Energy Charges  | <i>kWh's</i>                         |  |   |   |
|   | <u>154,967,220</u>                   | 5 0.02959 4,565,480                          | \$ 0.02349                                | 3,640,180                                       |
| Subtotal @ base rates before application of correction factor |                                      | <b>I 6,879,448</b>                           |   | <b>I 7286,178</b>                               |
| Correction Factor -   |                                      | 0.999428                                     | 0.999426                                  |   |
| Subtotal @ base rates after application of correction factor  |                                      | <b>I 6,883,383</b>                           | <b>I</b>                                  | <b>7290,346</b>                                 |
| Fuel Adjustment Clause - proforma for rollin                  |                                      | (72,627)                                     |   | (72,627)  |
| Merger Surcredit  |                                      | (190,189)                                    |   | (190,189)                                       |
| Value Delivery Surcredit                                      |                                      | (43,162)                                     |   | (43,162)  |
| VDT Amortization & Surcredit Adjustment                       |                                      | 505  |   | 505   |
| Adjustment to Reflect Year-End Customers                      | #REF!                                |  |   |   |
| <b>TOTAL LARGE COMMERCIAL RATE LC PRIMARY</b>                 |                                      | <b>\$ <u>6,577,911</u></b>                   | <b>I</b>                                  | <b><u>6,984,873</u></b>                         |
| <b>PROPOSED INCREASE</b>                                      |                                      |  | <b>\$</b>                                 | <b>406,962</b>                                  |
| Percentage Increase   |                                      |  |   | <b>6.19%</b>                                    |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| Billing Determinants   | Jan. 2004<br>ECR<br>Roll-in<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Rollin | Calculated<br>Revenue<br>at Settlement<br>Rates |
|--|--------------------------------------|--|---|---|
| LARGE COMMERCIAL RATE LC .SECONDARY VOLTAGE<br>Customer Charges                      | 30,959                               | \$ 17.70 \$ 547,974                          | 5 65.00 5                                 | 2,012,335                                       |
| Demand Charges   | <u>kW-Months</u>                     |  |   |   |
| Summer Season  | 1,823,049                            | \$ 10.32 18,813,866                          | \$ 14.20                                  | 25,887,296                                      |
| Winter Season  | 3,242,275                            | \$ 7.26 23,538,917                           | 5 11.14                                   | 36,118,944                                      |
|  | 5,065,324                            |  |   |   |
| Energy Charges   | <u>kWh's</u>                         |  |   |   |
|  | 2,059,176,673                        | \$ 0.02959 60,931,038                        | 5 0.02349                                 | 48,370,060                                      |
| Subtotal @ base rates before application of correction factor<br>Correction Factor - |                                      | \$ 103,831,794                               | 0.999428                                  | \$ 112,388,634                                  |
| Subtotal @ base rates after application of correction factor                         |                                      | \$ 103,891,193                               |   | \$ 112,452,929                                  |
| Fuel Adjustment Clause. pmformafor rollin  |                                      | (1,002,645)                                  |   | (1,002,645)                                     |
| Merger Surcredit   |                                      | (2,866,140)                                  |   | (2,866,140)                                     |
| Value Delivery Surcredit   |                                      | (651,470)                                    |   | (651,470)                                       |
| VDT Amortization 6 Surcredit Adjustment  |                                      | 7,617  |   | 7,617   |
| Adjustment to Reflect Year-End Customers   | 19,155,120                           | 932,854                                      |   | 1,013,228                                       |
| TOTAL LARGE COMMERCIAL RATE LC SECONDARY   |                                      | <u>\$ 100,311,410</u>                        |   | <u>\$ 108,953,519</u>                           |
| PROPOSED INCREASE<br>Percentage Increase   |                                      |  |   | \$ 8,642,109<br>8.62%                           |
| Total Large Commercial Rate LC   |                                      | <u>\$ 106,889,321</u>                        |   | <u>\$ 115,938,392</u>                           |
| PROPOSED INCREASE<br>Percentage Increase   |                                      |  |   | \$ 9,049,072<br>8.47%                           |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

|   | <u>Billing Determinants</u> | <u>Jan. 2004<br/>ECR<br/>Roll-In<br/>Rate</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rate</u> |
|---|-----------------------------|---|--|---|--|
| <b>LARGE COMMERCIAL RATE LCTOD- PRIMARY VOLTAGE</b>           |                             |   |  |   |  |
| Customer Charges  | 123                         | \$ 19.76                                      | \$ 2,433   | \$ 90.00  | \$ 11,070  |
| Basic Demand Charges  | <u>kW-Months</u><br>520,367 | \$ 1.98                                       | 1,030,327  | \$ 2.17   | 1,129,196  |
| Peak Demand Charges   | <u>kW-Months</u>            |   |  |   |  |
| Summer Peak   | 194,877                     | \$ 6.63                                       | 1,292,035  | \$ 10.15  | 1,978,002  |
| Winter Peak   | 322,246                     | \$ 3.54                                       | 1,140,756  | \$ 7.35   | 2,368,523  |
|   | 517,125                     |   |  |   |  |
| Energy Charges  | <u>kWh's</u><br>261,433,800 | \$ 0.02963                                    | 7,746,263  | \$ 0.02349  | 6,141,060  |
| Subtotal @ base rates before application of correction factor |                             |   | \$ 11,211,636  |   | \$ 11,627,871  |
| Correction Factor -   |                             | 1.002249                                      |  | 1.002249  |  |
| Subtotal @ base rates after application of correction factor  |                             |   | I 11,166,675   |   | \$ 11,601,776  |
| Fuel Adjustment Clause - proforma for rollin                  |                             |   | (125,669)  |   | (125,669)  |
| Merger Surcredit  |                             |   | (306,135)  |   | (306,135)  |
| Value Delivery Surcredit                                      |                             |   | (69,688)   |   | (69,688)   |
| VDT Amortization & Surcredit Adjustment                       |                             |   | 615  |   | 815  |
| Adjustment to Reflect Year-End Customers                      |                             |   |  |   |  |
| <b>TOTAL LARGE COMMERCIAL RATE LCTOD PRIMARY</b>              |                             |   | <u>\$ 10,663,797</u>                                   | <b>I</b>  | <u>11,098,899</u>  |
| <b>PROPOSED INCREASE</b>                                      |                             |   |  | <b>\$</b>   | 415,102  |
| Percentage Increase   |                             |   |  |   | 3.89%  |



LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| Billing Determinants  | Jan. 2004<br>ECR<br>Roll-In<br>Rates | Calculated<br>Revenue<br>at <b>Present<br/>Rates</b> | <b>Settlement<br/>Rates<br/>with ECR<br/>Rollin</b> | Calculated<br>Revenue<br>at <b>Settlement<br/>Rates</b> |
|---|--------------------------------------|--|---|---|
| LARGE COMMERCIAL RATE LCTOD .SECONDARY VOLTAGE<br>Customer Charges 604                        | \$ 19.76                             | \$ 11,947  | 5 90.00 5   | 54,360  |
| Basic Demand Charges <u>kW-Months</u><br>671.385  | \$ 3.68                              | 2,470,697  | \$ 3.22   | 2,161,860   |
| Peak Demand Charges <u>kW-Months</u><br>Summer Peak 232,987<br>Winter Peak 433,763<br>666,750 | \$ 6.63<br>\$ 3.54                   | 1,544,704<br>1,535,521                               | \$ 10.98<br>5 7.92                                  | 2,558,197<br>3,435,403                                  |
| Energy Charges <u>kWh's</u><br>308,993,871  | \$ 0.02963                           | 9,155,488  | \$ 0.02349  | 7,258,266   |
| <b>Subtotal @ base rates before application of correction factor</b><br>Correction Factor -   | 1.002249                             | <b>\$ 14,718,357</b>                                 | 1.002249  | <b>I 15,468,086</b>                                     |
| Subtotal @ base rates after application of correction factor                                  |                                      | <b>I 14,685,327</b>                                  |   | <b>\$ 15,433,373</b>                                    |
| Fuel Adjustment Clause, proforma for rollin   |                                      | (153,023)  |   | (153,023)   |
| Merger Surcredit  |                                      | (403,395)  |   | (403,395)   |
| Value Delivery Surcredit  |                                      | (91,549)   |   | (91,549)  |
| VDT Amortization & Surcredit Adjustment   |                                      | 1,070  |   | 1,070   |
| Adjustment to Reflect Year-End Customers 12,359,754   |                                      | 568,077  |   | 596,243   |
| <b>TOTAL LARGE COMMERCIAL RATE LCTOD SECONDARY</b>  |                                      | <b>\$ 14,604,508</b>                                 |   | <b>I 15,382,720</b>                                     |
| <b>PROPOSED INCREASE</b><br>Percentage Increase   |                                      |  |   | <b>\$ 778,212</b><br>5.33%                              |
| <b>TOTAL LARGE COMMERCIAL RATE LCTOD</b>  |                                      | <b>\$ 25,288,305</b>                                 |   | <b>I 26,481,619</b>                                     |
| <b>PROPOSED INCREASE</b><br>Percentage Increase   |                                      |  |   | <b>\$ 1,193,314</b><br>4.72%                            |
| <b>TOTAL LARGE COMMERCIAL (LC and LC-TOD)</b>   |                                      | <b>\$ 132,177,625</b>                                |   | <b>\$ 142,420,011</b>                                   |
| <b>PROPOSED INCREASE</b><br>Percentage Increase   |                                      |  |   | <b>\$ 10,242,388</b><br>7.75%                           |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLL-IN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| <u>Billing Determinants</u>                                   | <u>Jan. 2004<br/>ECR<br/>Roll-In<br/>Rates</u> |         | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|---|--|---------|--|---|---|
| <b>INDUSTRIAL POWER RATE LP - TRANSMISSION VOLTAGE</b>        |  |         |  |   |   |
| Customer Charges  | 5  | 43.78   | \$   | \$ 90.00  | 5   |
| Demand Charges  | <u>kW-Months</u>                               |         |  |   |   |
| Summer Season   | \$   | 7.59    |  | \$ 11.35  |   |
| Winter Season   | \$   | 5.00    |  | \$ 8.76   |   |
| Energy Charger  | <u>kWh's</u>                                   |         |  |   |   |
|   | \$   | 0.02542 |  | \$ 0.02000  |   |
| Power Factor Provision  | <u>kW-Months</u>                               |         |  |   |   |
| Summer Season   | 5  | 7.59    |  | \$ 11.35  |   |
| Winter Season   | \$   | 5.00    |  | \$ 8.76   |   |
| Subtotal @ base rates before application of correction factor |  |         | \$   | -   | \$  |
| Correction Factor.  |  |         |  |   |   |
| Subtotal @ base rates after application of correction factor  |  |         | \$   |   | \$  |
| Fuel Adjustment Clause. proforma for rollin                   |  |         |  |   |   |
| Merger Surcredit  |  |         |  |   |   |
| Value Delivery Surcredit                                      |  |         |  |   |   |
| VDT Amortization & Surcredit Adjustment                       |  |         |  |   |   |
| Adjustment to Reflect Year-End Customers                      |  |         |  |   |   |
| <b>TOTAL INDUSTRIAL POWER RATE LP PRIMARY</b>                 |  |         |  | <u>\$</u>   | <u>-</u>  |
| <b>PROPOSED INCREASE</b>                                      |  |         |  | \$  | -   |
| Percentage Increase   |  |         |  |   |   |

Note: Currently no customers are served under this rate

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| <u>Billing Determinants</u>                                   | <u>Jan. 2004<br/>ECR<br/>Roll-in<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|---|--|--|---|---|
| <b>INDUSTRIAL POWER RATE LP - PRIMARY VOLTAGE</b>             |  |  |   |   |
| Customer Charges  | 494  | \$ 43.78   | \$ 21,627   | \$ 90.00  |
| Demand Charger  | <u>kW-Months</u>                               |  |   |   |
| Summer Season   | 95,177   | \$ 8.78  | 835,654   | \$ 12.55  |
| winter Season   | 181,277  | \$ 6.17  | 1,118,479   | \$ 9.96   |
|   | <u>276,454</u>                                 |  |   |   |
| Energy Charges  | <u>kWh's</u>                                   |  |   |   |
|   | 111,622,714                                    | \$ 0.02542   | 2,837,449   | \$ 0.02000  |
| Power Factor Provision  | <u>kW-Months</u>                               |  |   |   |
| Summer Season   | (806)  | \$ 8.78  | (7,077)   | \$ 12.55  |
| Winter Season   | (3,501)  | \$ 6.17  | (21,601)  | \$ 9.96   |
|   | <u>(4,307)</u>                                 |  |   |   |
| Subtotal @ base rates before application of correction factor |  | <b>\$ 4,784,532</b>                                    |   | <b>\$ 5,231,919</b>                                       |
| Correction Factor -   |  | 0.999681   |   | 0.999681  |
| Subtotal @ base rates after application of correction factor  |  | <b>\$ 4,706,080</b>                                    |   | <b>\$ 5,233,590</b>                                       |
| Fuel Adjustment Clause - proforma for rollin                  |  |  | (58,665)  | (58,665)  |
| Merger Surcredit  |  |  | (130,757)   | (130,757)   |
| Value Delivery Surcredit                                      |  |  | (29,824)  | (29,824)  |
| VDT Amortization & Surcredit Adjustment                       |  |  | 349   | 349   |
| Adjustment to Reflect Year-End Customers                      |  |  |   |   |
| <b>TOTAL INDUSTRIAL POWER RATE LP PRIMARY</b>                 |  | <b>\$ 4,567,163</b>                                    |   | <b>\$ 5,014,693</b>                                       |
| <b>PROPOSED INCREASE</b>                                      |  |  |   | <b>\$ 447,530</b>   |
| <b>Percentage Increase</b>                                    |  |  |   | <b>9.80%</b>  |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| Billing Determinants  | Jan. 2004<br>ECR<br>Roll-In<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Rollin | Calculated<br>Revenue<br>at Settlement<br>Rates |
|---|--------------------------------------|--|---|---|
| <b>INDUSTRIAL POWER RATE LP -SECONDARY VOLTAGE</b>            |                                      |  |   |   |
| Customer Charges  | 4,225                                | \$ 43.76                                     | \$ 184,971                                | 5 90.00 \$ 380,250                              |
| Demand Charges  | <u>kW-Months</u>                     |  |   |   |
| Summer Season   | 485,652                              | \$ 10.69                                     | 5,300,656                                 | \$ 14.35 7,115,476                              |
| Winter Season   | <u>927,407</u>                       | \$ 8.11                                      | 7,521,271                                 | \$ 11.76 10,906,306                             |
|   | 1,423,259                            |  |   |   |
| Energy Charges  | <u>kWh's</u>                         |  |   |   |
|   | 553,636,275                          | \$ 0.02542                                   | 14,078,518                                | \$ 0.02000 11,076,726                           |
| Power Factor Provision  | <u>kW-Months</u>                     |  |   |   |
| Summer Season   | (4,581)                              | \$ 10.69                                     | (48,971)                                  | \$ 14.35 (65,737)                               |
| Winter Season   | <u>(10,121)</u>                      | \$ 6.11                                      | (82,061)                                  | \$ 11.76 (119,023)                              |
|   | (14,702)                             |  |   |   |
| Subtotal @ base rates before application of correction factor |                                      | \$ 26,954,365                                |   | I 29,293,998                                    |
| Correction Factor -   | 0.999661                             |  |   | 0.999681  |
| Subtotal @ base rates after application of correction factor  |                                      | \$ 26,962,971                                |   | \$ 29,303,351                                   |
| Fuel Adjustment Clause - proforma for rollin                  |                                      |  | 1277.626)                                 | (277.626)                                       |
| Merger Surcredit  |                                      |  | (738,856)                                 | (736.656)                                       |
| Value Delivery Surcredit                                      |                                      |  | (167,175)                                 | (167,175)                                       |
| M T Amortization & Surcredit Adjustment                       |                                      |  | 1,965                                     | 1,955   |
| Adjustment to Reflect Year-End Customers                      | 3,146,798                            |  | 147,900                                   | 161,327   |
| <b>TOTAL INDUSTRIAL POWER RATE LP SECONDARY</b>               |                                      | <u>\$ 25,929,168</u>                         |   | <u>\$ 28,282,975</u>                            |
| <b>PROPOSED INCREASE</b>                                      |                                      |  |   | I 2,353,807                                     |
| Percentage increase   |                                      |  |   | 9.08%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON RATES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLL-IN API

TO TEST PERIOD BILLING DETERMINANTS

|  | <u>Billing Determinants</u> | <u>Jan. 2004<br/>ECR<br/>Roll-In<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|--|-----------------------------|--|--|---|---|
| <b>INDUSTRIAL POWER RATE LPTOD TRANSMISSION VOLTAGE</b>                              |                             |  |  |   |   |
| Customer Charges   | 73                          | \$ 45.81                                       | \$ 3,344   | \$ 120.00   | \$ 8,760  |
| Basic Demand Charges   | <u>kW-Months</u><br>696,768 | \$ 2.10  | 1,463,255  | \$ 2.33   | 1,623,516   |
| Peak Demand Charges  | <u>kW-Months</u>            |  |  |   |   |
| Summer Peak  | 234,813                     | \$ 5.50  | 1,291,472  | \$ 9.02   | 2,116,013   |
| Winter Peak  | 454,878                     | \$ 2.92  | 1,328,244  | \$ 6.43   | 2,924,866   |
|  | 689,691                     |  |  |   |   |
| Energy Charges   | <u>kWh's</u><br>376,359,726 | \$ 0.02542                                     | 9,567,064  | \$ 0.02000  | 7,527,195   |
| Power Factor Provision   | <u>kW-Months</u>            |  |  |   |   |
| Basic Demand   | (25,159)                    | \$ 2.10  | (52,834)   | \$ 2.33   | (58,620)  |
| Summer Peak  | (7,762)                     | \$ 5.50  | (42,691)   | \$ 9.02   | (70,013)  |
| Winter Peak  | (1215)                      | \$ 2.92  | (50,268)   | \$ 6.43   | (110,692)   |
| Interruptible Service Rider  | <u>kW-Months</u><br>411,322 | \$ (3.30)                                      | (1,357,363)  | 5 (3.10)  | (1,275,096)   |
| Subtotal @ base rates before application of correction factor                        |                             |  | \$ 12,150,223  |   | \$ 12,687,925   |
| Correction Factor  |                             | 1.000343                                       |  | 1.000343  |   |
| Subtotal @ base rates after application of correction factor                         |                             |  | <b>I</b> 12,146,053                                    |   | <b>\$</b> 12,083,570                                      |
| Fuel Adjustment Clause - proforma for rollin   |                             |  | (213,291)  |   | (213,291)   |
| Merger Surcredit   |                             |  | (328,889)  |   | (328,889)   |
| Value Delivery Surcredit   |                             |  | (74,173)   |   | (74,173)  |
| VDT Amortization & Surcredit Adjustment  |                             |  | 867  |   | 867   |
| Adjustment to Reflect Year-End Customers   |                             |  |  |   |   |
| <b>TOTAL INDUSTRIAL POWER RATE LPTOD TRANSMISSION</b>                                |                             |  | <u>\$ 11,530,567</u>                                   |   | <u>\$ 12,068,084</u>                                      |
| <b>PROPOSED INCREASE</b>   |                             |  |  |   | <b>\$ 537,517</b>   |
| percentage increase  |                             |  |  |   | 4.66%   |
| <b>TOTAL INDUSTRIAL POWER RATE LPTOD TRANSMISSION (without interruptible Credit)</b> |                             |  | <b>I</b> <u>12,887,929</u>                             |   | <b>\$ 13,343,182</b>                                      |
| <b>PROPOSED INCREASE (without interruptible Credit)</b>                              |                             |  |  |   | <b>\$ 455,253</b>   |
| percentage increase  |                             |  |  |   | 3.53%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

|   | <u>Billing Determinants</u> | <u>Jan. 2004<br/>ECR<br/>Roll-in<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|---|-----------------------------|--|--|---|---|
| INDUSTRIAL POWER RATE LPTOD - PRIMARY VOLTAGE<br>Customer Charges               | 540                         | \$ 45.61                                       | \$ 24,737  | \$ 120.00   | \$ 64,800   |
|   | <u>kW-Months</u>            |  |  |   |   |
| Basic Demand Charges  | 2,963,564                   | \$ 3.29  | 9,750,126  | \$ 3.52   | 10,431,745  |
|   | <u>kW-Months</u>            |  |  |   |   |
| Peak Demand Charges   |                             |  |  |   |   |
| Summer Peak   | 996,472                     | \$ 5.50  | 5,480,596  | \$ 9.03   | 8,998,142   |
| Winter Peak   | 1,952,825                   | \$ 2.92  | 5,702,249  | \$ 6.44   | 12,576,193  |
|   | <u>2,949,297</u>            |  |  |   |   |
|   | <u>kWh's</u>                |  |  |   |   |
| Energy Charges  | 1,597,360,760               | \$ 0.02542                                     | 40,604,911   | \$ 0.02000  | 31,947,215  |
|   | <u>kW-Months</u>            |  |  |   |   |
| Power Factor Provision  |                             |  |  |   |   |
| Basic Demand  | (103,903)                   | \$ 3.29  | (341,840)  | \$ 3.52   | (365,737)   |
| Summer Peak   | (41,348)                    | \$ 5.50  | (227,412)  | \$ 9.03   | (373,369)   |
| Winter Peak   | (58,231)                    | \$ 2.92  | (170,035)  | \$ 6.44   | (375,008)   |
|   | <u>344,897</u>              |  |  |   |   |
| Interruptible Service Rider   |                             | \$ (3.30)                                      | (1,138,160)  | \$ (3.20)   | (1,103,670)   |
| <b>Subtotal @ bare rates before application of correction factor</b>            |                             |  | <b>\$ 59,685,172</b>                                   |   | <b>I 61,800,311</b>                                       |
| Correction Factor -   |                             | 1.000342                                       |  | 1.000342  |   |
| <b>Subtotal @ base rates after application of correction factor</b>             |                             |  | <b>\$ 59,664,762</b>                                   |   | <b>\$ 61,779,178</b>                                      |
| Fuel Adjustment Clause - proforma for rollin                                    |                             |  | (864,770)  |   | (864,770)   |
| Merger Surcredit  |                             |  | (1,626,347)  |   | (1,626,347)   |
| Value Delivery Surcredit  |                             |  | (366,371)  |   | (366,371)   |
| VOT Amortization & Surcredit Adjustment   |                             |  | 4,284  |   | 4,284   |
| Adjustment to Reflect Year-End Customers  |                             |  |  |   |   |
| <b>TOTAL INDUSTRIAL POWER RATE LPTOD PRIMARY</b>                                |                             |  | <b>I 56,811,559</b>                                    |   | <b>I 58,925,974</b>                                       |
| PROPOSED INCREASE   |                             |  |  |   | \$ 2,444,446  |
| Percentage Increase   |                             |  |  |   | 3.72%   |
| <b>TOTAL INDUSTRIAL POWER RATE LPTOD PRIMARY (without Interruptible Credit)</b> |                             |  | <b>\$ 57,949,719</b>                                   |   | <b>\$ 60,029,644</b>                                      |
| PROPOSED INCREASE (without Interruptible Credit)                                |                             |  |  |   | \$ 2,079,926  |
| Percentage Increase   |                             |  |  |   | 3.59%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLL-IN APPLIED TO TEST PERIOD BILLING DETERMINANTS

|   | Billing Determinants | Jan. 2004<br>ECR<br>Roll-In<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Rollin | Calculated<br>Revenue<br>at Settlement<br>Rates |
|---|----------------------|--------------------------------------|--|---|---|
| INDUSTRIAL POWER RATE LPTOD -SECONDARY VOLTAGE                |                      |                                      |  |   |   |
| Customer Charges  | 151                  | \$ 45.81                             | \$ 6,917                                     | \$ 120.00                                 | \$ 18,120                                       |
|   | <u>kW-Months</u>     |                                      |  |   |   |
| Basic Demand Charges  | 114,966              | \$ 5.25                              | 603,572                                      | \$ 4.62                                   | 531,143   |
|   | <u>kW-Months</u>     |                                      |  |   |   |
| Peak Demand Charges   |                      |                                      |  |   |   |
| Summer Peak   | 31,727               | \$ 5.50                              | 174,499                                      | \$ 9.73                                   | 308,704   |
| Winter Peak   | 80,068               | \$ 2.92                              | 233,799                                      | \$ 7.14                                   | 571,666   |
|   | <u>111,795</u>       |                                      |  |   |   |
|   | <u>kWh's</u>         |                                      |  |   |   |
| Energy Charges  | 42,810,915           | \$ 0.02542                           | 1,088,253                                    | \$ 0.02000                                | 856,218   |
|   | <u>kW-Months</u>     |                                      |  |   |   |
| Power Factor Provision  |                      |                                      |  |   |   |
| Basic Demand  | (1,951)              | \$ 5.25                              | (10,243)                                     | \$ 4.82                                   | (9,014)   |
| Summer Peak   | (533)                | \$ 5.50                              | (2,932)                                      | \$ 9.73                                   | (5,186)   |
| Winter Peak   | (1,404)              | \$ 2.92                              | (4,100)                                      | \$ 7.14                                   | (10,025)  |
| Subtotal @ base rates before application of correction factor |                      |                                      | \$ 2,089,765                                 | I   | 2,281,846                                       |
| Correction Factor -   |                      | 1.000343                             |  | 1.000343                                  |   |
| Subtotal @ base rates after application of correction factor  |                      |                                      | I 2,089,048                                  | \$  | 2,260,870                                       |
| Fuel Adjustment Clause - proforma for rollin                  |                      |                                      | (21,506)                                     |   | (21,506)  |
| Merger Surcredit  |                      |                                      | (56,520)                                     |   | (56,520)  |
| Value Delivery Surcredit                                      |                      |                                      | (12,486)                                     |   | (12,486)  |
| VOT Amortization & Surcredit Adjustment                       |                      |                                      | 146  |   | 146   |
| Adjustment to Reflect Year-End Customers                      |                      |                                      |  |   |   |
| TOTAL INDUSTRIAL POWER RATE LPTOD SECONDARY                   |                      |                                      | \$ 1,998,882                                 | \$  | 2,170,504                                       |
| PROPOSED INCREASE   |                      |                                      |  | I   | 171,822   |
| Percentage Increase   |                      |                                      |  |   | 8.80%   |
| TOTAL INDUSTRIAL POWER RATE LESS INTERRUPTIBLE CREDIT         |                      |                                      | \$ 103,332,661                               | I   | 108,840,999                                     |
| PROPOSED INCREASE   |                      |                                      |  | \$  | 5,508,337                                       |
| Percentage Increase   |                      |                                      |  |   | 5.33%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| <u>Billing Determinants</u>                                  | <u>Jan. 2004<br/>ECR<br/>Roll-In<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |           |
|--|--|--|---|---|-----------|
| <b>SPECIAL CONTRACT</b>                                      |  |  |   |   |           |
| Demand Charger   |  |  |   |   |           |
| Summer Season  | <u>kW-Months</u><br>154.000                    | \$ 6.43  | 1,298,220   | \$ 11.94  | 1,838,760 |
| winter Season  | <u>216.450</u>                                 | \$ 6.24  | 1,350,648   | 5 9.75  | 2,110,388 |
|  | <u>370.450</u>                                 |  |   |   |           |
| Energy Charges   | <u>kWh's</u><br>195,880,000                    | \$ 0.02437   | 4,773,596   | \$ 0.02000  | 3,917,600 |
| Power Factor Provision                                       |  |  |   |   |           |
| Summer Season  | <u>kW-Months</u><br>(11.539)                   | \$ 8.43  | (97.275)  | \$ 11.94  | (137.778) |
| Winter Season  | <u>(16.4501)</u>                               | \$ 6.24  | (102.649)   | \$ 9.75   | (160,389) |
|  | <u>(27.969)</u>                                |  |   |   |           |
| Subtotal@ base rates before application of correction factor |  | \$ 7,222,539   |   | \$ 7,568,580  |           |
| Correction Factor -  |  | 1.000000   |   | 1.000000  |           |
| Subtotal@ base rates after application of correction factor  |  | \$ 7,222,538   |   | \$ 7,568,580  |           |
| Fuel Adjustment Clause. proforma for rollin                  |  |  | (66.299)  |   | (86.299)  |
| Merger Surcredit   |  |  | (199.899)   |   | (199,899) |
| Value Delivery Surcredit                                     |  |  | (45,934)  |   | (45,934)  |
| VDT Amortization& Surcredit Adjustment                       |  |  | 537   |   | 537       |
| <b>TOTAL SPECIAL CONTRACT</b>                                |  | <b>I 6,890,944</b>                                     |   | <b>I 7,236,985</b>  |           |
| PROPOSED INCREASE  |  |  |   | \$ 346,041  |           |
| Percentage Increase  |  |  |   |   | 5.02%     |



LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SAI ES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

|   | <u>Billing Determinants</u> | <u>Jan. 2004<br/>ECR<br/>Roll-in<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|---|-----------------------------|--|--|---|---|
| <b>SPECIAL CONTRACT</b>                                       |                             |  |  |   |   |
| Demand Charges  | <u>kW-Months</u><br>221.864 | \$ 11.01                                       | 2,442,723  | \$ 11.15  | 2,473,784   |
| Energy Charges  | <u>kWh's</u><br>145,699,200 | \$ 0.01852                                     | 2,898,349  | \$ 0.02000  | 2,913,984   |
| Subtotal @ base rates before application of correction factor |                             |  | I 5,141,072  |   | \$ 5,387,768  |
| Correction Factor-  |                             | 1.000000                                       |  | 1.000000  |   |
| Subtotal @ base rates after application of correction factor  |                             |  | I 5,141,072  |   | \$ 5,387,788  |
| Fuel Adjustment Clause. proforma for rollin                   |                             |  | (75,153)   |   | (75,153)  |
| Merger Surcredit  |                             |  | (139,387)  |   | (139,387)   |
| Value Delivery Surcredit                                      |                             |  | (31,349)   |   | (31,349)  |
| VDT Amortization & Surcredit Adjustment                       |                             |  | 367  |   | 367   |
| <b>TOTAL SPECIAL CONTRACT</b>                                 |                             |  | <u>\$ 4,895,550</u>                                    |   | <u>\$ 5,142,246</u>                                       |
| <b>PROPOSED INCREASE</b>                                      |                             |  |  |   | \$ 248,896  |
| Percentage Increase   |                             |  |  |   | 5.04%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

|   | <u>Billing Determinants</u> | Jan. 2004<br>ECR<br>Roll-in<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Rollin | Calculated<br>Revenue<br>at Settlement<br>Rates |
|---|-----------------------------|--------------------------------------|--|---|---|
| SPECIAL CONTRACT  |                             |                                      |  |   |   |
| Customer Charger  | 12                          | \$ 74.29                             | \$ 891                                       | 5 120.00                                  | \$ 1,440  |
| Basic Demand Charges  | <u>kW-Months</u><br>402,555 | \$ 5.93                              | 2,387,151                                    | \$ 6.30                                   | 2,536,097                                       |
| Peak Demand Charges   | <u>kW-Months</u>            |                                      |  |   |   |
| Summer Peak   | 137,065                     | \$ 8.19                              | 1,122,562                                    | \$ 7.65                                   | 1,048,547                                       |
| Winter Peak   | 238,810                     | \$ 3.81                              | 909,866                                      | \$ 3.27                                   | 780,909   |
|   | <u>375,875</u>              |                                      |  |   |   |
| Energy Charges  | <u>kWh's</u><br>155,404,800 | 5 0.01751                            | 2,721,138                                    | \$ 0.02000                                | 3,108,096                                       |
| Power Factor Provision  | <u>kW-Months</u>            |                                      |  |   |   |
| Basic Demand  | (16,663)                    | \$ 5.93                              | (110,671)                                    | 5 6.30                                    | (117,576)                                       |
| Summer Peak   | (6,720)                     | \$ 8.19                              | (55,036)                                     | 5 7.65                                    | (51,407)  |
| Winter Peak   | (10,724)                    | 5 3.61                               | (40,860)                                     | 5 3.27                                    | (35,068)  |
| interruptible Service Rider                                   | <u>kW-Months</u>            |                                      |  | \$ (3.30)                                 |   |
| Subtotal @ base rates before application of correction factor |                             |                                      | \$ 6,935,043                                 |   | \$ 7,271,037                                    |
| Correction Factor -   |                             | 1.000000                             |  | 1.000000                                  |   |
| Subtotal @ base rates after application of correction factor  |                             |                                      | \$ 6,935,043                                 |   | \$ 7,271,037                                    |
| Fuel Adjustment Clause. proforma for rollin                   |                             |                                      | (76,751)                                     |   | (76,751)  |
| Merger Surcredit  |                             |                                      | (191,055)                                    |   | (191,055)                                       |
| Value Delivery Surcredit                                      |                             |                                      | (43,460)                                     |   | (43,460)  |
| VDT Amortization & Surcredit Adjustment                       |                             |                                      | 508  |   | 508   |
| TOTAL SPECIAL CONTRACT  |                             |                                      | <u>\$ 6,624,286</u>                          |   | <u>\$ 6,960,280</u>                             |
| PROPOSED INCREASE   |                             |                                      |  | \$  | 335,994   |
| Percentage Increase   |                             |                                      |  |   | 5.07%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| <u>Billing Determinants</u>  | <u>Jan. 2004<br/>ECR<br/>Roll-in<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|--|--|--|---|---|
| <b>SPECIAL CONTRACT</b>  |  |  |   |   |
| Customer Charger   | 12   | \$ 74.29   | \$ 74.29  | \$ 891  |
| Basic Demand Charges   | <u>kW-Months</u><br>624,000                    | \$ 4.36  | \$ 4.62   | 2,882,880   |
| Peak Demand Charges  | <u>kW-Months</u>                               |  |   |   |
| Summer Peak  | 180,000  | \$ 8.19  | \$ 7.65   | 1,377,000   |
| Winter Peak  | <u>360,000</u>                                 | \$ 3.81  | \$ 3.27   | 1,177,200   |
|  | 540,000  |  |   |   |
| Energy Charges   | <u>kWh's</u><br>199,644,549                    | \$ 0.01751   | \$ 0.02000  | 3,992,891   |
| Pa e r Factor Provision  | <u>kW-Months</u>                               |  |   |   |
| Basic Demand   | (49,504)                                       | \$ 4.36  | \$ 4.62   | (228,708)   |
| Summer Peak  | (14,040)                                       | \$ 8.19  | \$ 7.65   | (107,408)   |
| Winter Peak  | (28,800)                                       | \$ 3.81  | 5 3.27  | (94,176)  |
| Interruptible Service Rider  | <u>kW-Months</u><br>120,000                    | \$ (3.30)  | \$ (3.10)   | (372,000)   |
| Station House Credit   |  |  |   | (1,200)   |
| <b>Subtotal @ base rates</b> before application of correction factor |  | <b>\$ 8,225,354</b>                                    |   | <b>\$ 8,627,312</b>                                       |
| Correction Factor.   | 1.000078                                       |  | 1.000078  |   |
| <b>Subtotal @ base rates after</b> application of correction factor  |  | <b>\$ 8,224,717</b>                                    |   | <b>\$ 8,626,703</b>                                       |
| Fuel Adjustment Clause - proforma for rollin                         |  |  |   | (102,665)   |
| Merger Surcredit   |  |  |   | (225,529)   |
| Value Delivery Surcredit   |  |  |   | (51,289)  |
| VDT Amortization & Surcredit Adjustment                              |  |  |   | 600   |
| <b>TOTAL SPECIAL CONTRACT</b>  |  | <b>\$ 7,845,834</b>                                    |   | <b>\$ 8,247,820</b>                                       |
| <b>PROPOSED INCREASE</b>   |  |  |   | \$ 401,986  |
| Percentage increase  |  |  |   | 5.12%   |
| <b>TOTAL SPECIAL CONTRACT (without Interruptible Credit)</b>         |  | <b>8,241,034</b>                                       |   | <b>\$ 8,619,820</b>                                       |
| <b>PROPOSED INCREASE</b>   |  |  |   | \$ 377,986  |
| Percentage increase  |  |  |   | 4.59%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

|  | <u>Billing Determinants</u> | <u>Jan. 2004<br/>ECR<br/>Roll-In<br/>Rates</u> |          | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|--|-----------------------------|--|----------|--|---|---|
| <b>SPECIAL CONTRACT</b>  |                             |  |          |  |   |   |
| Demand Charges   | <u>kW-Months</u><br>104,943 | 5  | 7.53     | 790,221  | \$ 8.33   | 874,175   |
| Energy Charges   | <u>kWh's</u><br>56,404,800  | 5  | 0.01975  | 1,115,772  | \$ 0.01088  | 1,123,117   |
| <b>Subtotal @ base rates before application of correction factor</b> |                             |  |          | <b>\$ 1,905,993</b>                                    |   | <b>\$ 1,997,292</b>                                       |
| Correction Factor -  |                             |  | 1.000000 |  | 1.000000  |   |
| <b>Subtotal @ base rates after application of correction factor</b>  |                             |  |          | <b>\$ 1,905,993</b>                                    |   | <b>\$ 1,997,292</b>                                       |
| Fuel Adjustment Clause. proforma for rollin                          |                             |  |          | (28,377)   |   | (28,377)  |
| Merger Surcredit   |                             |  |          | (51,718)   |   | (51,718)  |
| Value Delivery Surcredit   |                             |  |          | (11,705)   |   | (11,705)  |
| VDT Amortization & Surcredit Adjustment                              |                             |  |          | 137  |   | 137   |
| <b>TOTAL SPECIAL CONTRACT</b>  |                             |  |          | <b>\$ 1,814,330</b>                                    |   | <b>\$ 1,905,829</b>                                       |
| <b>PROPOSED INCREASE</b>   |                             |  |          |  |   | <b>\$ 91,299</b>  |
| Percentage Increase  |                             |  |          |  |   | 5.03%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| Billing Determinants   |                            | Jan. 2004<br>ECR<br>Roll-in<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Rollin | Calculated<br>Revenue<br>at Settlement<br>Rates |
|--|----------------------------|--------------------------------------|--|---|---|
| <b>STREET LIGHTING ENERGY RATE SLE</b>                               |                            |                                      |  |   |   |
| Energy Charges   | <u>kWh's</u><br>3,992,315  | \$ 0.03788                           | 151,229                                      | \$ 0.04059                                | 162,048   |
| <b>Subtotal @ base rates</b> before application of correction factor |                            |                                      | 151,229                                      | \$  | 162,048   |
| <b>Subtotal @ base rates</b> after application of correction factor  |                            | 1.001986                             | 150,929                                      | 1.001986                                  | 161,727   |
| Fuel Adjustment Clause - proforma for rollin                         |                            |                                      | (2,325)                                      |   | (2,325)   |
| Merger Surcredit   |                            |                                      | (4,081)                                      |   | (4,081)   |
| Value Delivery Surcredit   |                            |                                      | (887)  |   | (887)   |
| VDT Amortization & Surcredit Adjustment                              |                            |                                      | 10   |   | 10  |
| Adjustment to Reflect Year-End Customers                             | (31,939)                   |                                      | (1,159)                                      |   | (1,247)   |
| <b>TOTAL STREET LIGHTING ENERGY RATE SLE</b>                         |                            |                                      | <u>142,487</u>                               |   | <u>153,197</u>                                  |
| <b>PROPOSED INCREASE</b>   |                            |                                      |  |   | 10,711  |
| Percentage Increase  |                            |                                      |  |   | 7.52%   |
| <b>TRAFFIC LIGHTING ENERGY RATE TLE</b>                              |                            |                                      |  |   |   |
| Customer Charges   | 10,370                     | \$2.54                               | 26,340                                       | \$ 2.80                                   | 29,036  |
| Energy Charges   | <u>kWh's</u><br>11,472,338 | \$ 0.04777                           | 548,034                                      | \$ 0.05114                                | 586,695   |
| <b>Subtotal @ base rates</b> before application of correction factor |                            |                                      | 574,373                                      |   | 615,731   |
| <b>Subtotal @ base rates</b> after application of correction factor  |                            | 0.993299                             | 578,248                                      | 0.993299                                  | 619,885   |
| Fuel Adjustment Clause - proforma for rollin                         |                            |                                      | (6,274)                                      |   | (6,274)   |
| Merger Surcredit   |                            |                                      | (15,832)                                     |   | (15,832)  |
| Value Delivery Surcredit   |                            |                                      | (3,492)                                      |   | (3,492)   |
| VDT Amortization & Surcredit Adjustment                              |                            |                                      | 41   |   | 41  |
| Adjustment to Reflect Year-End Customers                             | 119,502                    |                                      | 5,808  |   | 6,245   |
| <b>TOTAL TRAFFIC LIGHTING ENERGY RATE TLE</b>                        |                            |                                      | <u>558,499</u>                               |   | <u>600,573</u>                                  |
| <b>PROPOSED INCREASE</b>   |                            |                                      |  |   | 42,075  |
| Percentage Increase  |                            |                                      |  |   | 7.53%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLL-IN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| Billing Determinants                                      | Jan. 2004<br>ECR<br>Roll-In<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Rollin | Calculated<br>Revenue<br>at Settlement<br>Rates |
|---|--------------------------------------|--|---|---|
| <b>PUBLIC STREET LIGHTING RATE PSL</b>                    |                                      |  |   |   |
| <u>Lights</u>   |                                      |  |   |   |
| <b>OVERHEAD SERVICE</b>                                   |                                      |  |   |   |
| <b>Mercury Vapor - Installed prior to January 1, 1991</b> |                                      |  |   |   |
| 100 Wall  | 564                                  | \$ 6.08                                      | \$ 6.52                                   | \$ 3,677  |
| 175 Wall  | 35,831                               | \$ 7.08                                      | \$ 7.59                                   | \$ 271,957                                      |
| 250 Wall  | 58,512                               | \$ 8.03                                      | \$ 8.81                                   | \$ 503,788                                      |
| 400 Wall  | 85,032                               | \$ 9.56                                      | \$ 10.25                                  | \$ 871,578                                      |
| 400 Wall (metal pole)                                     |                                      | \$ 13.90                                     | \$ 14.90                                  |   |
| 1000 Wan  | 168                                  | \$ 17.64                                     | \$ 18.92                                  | \$ 3,179  |
| <b>Mercury Vapor - Installed after December 31, 1990</b>  |                                      |  |   |   |
| 100 wan   |                                      | \$ 8.81                                      | \$ 9.45                                   | \$ 227  |
| 175 Wall  | 24                                   | \$ 9.86                                      | \$ 10.57                                  | \$ 8,670  |
| 250 Wall  | 631                                  | \$ 11.60                                     | \$ 12.85                                  | \$ 2,581  |
| 400 Wall  | 204                                  | \$ 21.24                                     | \$ 22.78                                  | \$ 2,187  |
| 400 Wall (metal pole)                                     |                                      |  |   |   |
| 1000 Wan  | 96                                   |  |   |   |
| <b>Sodium Vapor - Installed prior to January 1, 1991</b>  |                                      |  |   |   |
| 100 wan   | 216                                  | \$ 7.27                                      | \$ 7.80                                   | \$ 1,885  |
| 150 Watt  | 23,400                               | \$ 8.89                                      | \$ 9.32                                   | \$ 218,088                                      |
| 250 Watt  | 26,448                               | \$ 10.37                                     | \$ 11.12                                  | \$ 294,102                                      |
| 400 Wall  | 54,105                               | \$ 10.72                                     | \$ 11.49                                  | \$ 621,666                                      |
| 1000 wan  |                                      |  |   |   |
| <b>Sodium Vapor - Installed after December 31, 1990</b>   |                                      |  |   |   |
| 100 Watt  | 4,290                                | \$ 7.27                                      | \$ 7.80                                   | \$ 33,462                                       |
| 150 Wall  | 6,347                                | \$ 6.69                                      | \$ 9.32                                   | \$ 59,154                                       |
| 250 Wall  | 840                                  | \$ 10.37                                     | \$ 11.12                                  | \$ 9,341  |
| 400 wan   | 22,793                               | \$ 10.72                                     | \$ 11.49                                  | \$ 261,892                                      |
| 1000 Watt   | 24                                   | \$ 24.37                                     | \$ 28.13                                  | \$ 627  |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLL-IN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| Billing Determinants                                     | Jan. 2004<br>ECR<br>Roll-In<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Roll-In | Calculated<br>Revenue<br>at Settlement<br>Rates |
|--|--------------------------------------|--|--|---|
| <b>PUBLIC STREET LIGHTING RATE PSL (continued)</b>       |                                      |  |  |   |
| <u>Lights</u>  |                                      |  |  |   |
| <b>UNDERGROUND SERVICE</b>                               |                                      |  |  |   |
| <b>Mercury Vapor- Installed prior to January 1, 1991</b> |                                      |  |  |   |
| 100 Watt Top Mounted                                     | 1,200                                | \$ 9.98                                      | \$ 11.952                                  | \$ 12,816                                       |
| 175 Watt Top Mounted                                     | 12,888                               | \$ 10.86                                     | \$ 139,984                                 | \$ 150,145                                      |
| 175 Watt   | 1,236                                | \$ 14.77                                     | \$ 18,256                                  | \$ 19,578                                       |
| 250 Wan  | 12,120                               | \$ 15.78                                     | \$ 191,011                                 | \$ 204,828                                      |
| 400 Wan  | 8,364                                | \$ 18.49                                     | \$ 154,650                                 | \$ 165,858                                      |
| 400 Wan (metal pole)                                     | 4,452                                | 5 18.49                                      | \$ 82,317                                  | \$ 88,283                                       |
| <b>Mercury Vapor - Installed after December 31, 1990</b> |                                      |  |  |   |
| 100 Wan Top Mounted                                      |                                      | \$ 12.30                                     | 5 13.19                                    |   |
| 175 Watt Top Mounted                                     | 444                                  | \$ 13.32                                     | \$ 5,914                                   | \$ 6,340  |
| 175 Watt   |                                      | 5 21.04                                      | \$ 22.56                                   |   |
| 250 Watt   | 300                                  | \$ 22.08                                     | \$ 8,624                                   | \$ 7,104  |
| 400 Wall   |                                      | \$ 24.02                                     | \$ 25.76                                   |   |
| 400 Watt (metal pole)                                    |                                      | \$ 24.02                                     | \$ 25.76                                   |   |
| <b>Sodium Vapor - Installed prior to January 1, 1991</b> |                                      |  |  |   |
| 70 Watt Top Mounted                                      |                                      |  | \$ 11.73                                   |   |
| 100 Watt Top Mounted                                     | 23,244                               | 5 10.94                                      | \$ 254,289                                 | \$ 272,652                                      |
| 150 Watt Top Mounted                                     |                                      |  | \$ 20.33                                   |   |
| 150 wan  | 2,340                                | 5 18.96                                      | \$ 44,366                                  | \$ 47,572                                       |
| 250 Wall   | 6,744                                | \$ 20.06                                     | \$ 135,285                                 | \$ 145,063                                      |
| 250 Wall (metal pole)                                    | 1,344                                | \$ 20.06                                     | \$ 26,981                                  | \$ 28,909                                       |
| 400 Watt   | 7,404                                | \$ 21.42                                     | \$ 158,594                                 | \$ 170,070                                      |
| 400 Wan (metal pole)                                     | 2,160                                | 5 21.42                                      | \$ 46,267                                  | \$ 49,615                                       |
| 1000 Watt  |                                      |  | \$ 22.97                                   |   |
| <b>Sodium Vapor. installed after December 31, 1990</b>   |                                      |  |  |   |
| 70 Watt Top Mounted                                      | 2,316                                | \$ 10.55                                     | \$ 24,434                                  | \$ 26,194                                       |
| 100 Watt Top Mounted                                     | 58,564                               | \$ 10.94                                     | \$ 640,690                                 | \$ 688,956                                      |
| 150 Watt Top Mounted                                     | 4,124                                | \$ 16.18                                     | \$ 66,726                                  | \$ 71,551                                       |
| 150 watt   | 1,125                                | \$ 18.96                                     | \$ 21,330                                  | \$ 22,871                                       |
| 250 Watt   | 444                                  | \$ 20.06                                     | \$ 8,907                                   | \$ 9,550  |
| 250 Watt (metal pole)                                    |                                      | 5 20.06                                      | \$ 21.51                                   |   |
| 400 Watt   | 2,936                                | \$ 21.42                                     | \$ 62,889                                  | \$ 67,440                                       |
| 400 Wan (metal pole)                                     | 12                                   | \$ 21.42                                     | \$ 257                                     | \$ 276  |
| 1000 Watt  | 24                                   | \$ 49.85                                     | \$ 1,196                                   | \$ 1,283  |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| <u>Billing Determinants</u>                                   | <u>Jan. 2004<br/>ECR<br/>Rail-in<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|---|--|--|---|---|
| PUBLIC STREET LIGHTING RATE PSL (continued)                   |  |  |   |   |
| DECORATIVE LIGHTING FIXTURES                                  |  |  |   |   |
| installed after December 31, 1990                             |  |  |   |   |
| Acorn w/decorative baskets                                    |  |  |   |   |
| <u>Lights</u>   |  |  |   |   |
| 70 Watt Sodium Vapor  | 132  | \$ 14.57   | 5   | 15.62   |
| 100 Watt Sodium Vapor   | 1,044  | \$ 15.15   | \$  | 16.25   |
| <b>8-Sided Coach</b>  |  |  |   |   |
| 70 Watt Sodium Vapor  | 432  | I 14.76  | \$  | 15.83   |
| 100 Watt Sodium Vapor   |  | 5 15.33  | I   | 16.44   |
|   |  | 6,316  |   | 6.839   |
| <b>Poles</b>  |  |  |   |   |
| <u>Poles</u>  |  |  |   |   |
| 10ft Smooth   | 569  | 5 8.73   | \$  | 9.36  |
| 10ft Fluted   | 702  | \$ 10.42   | \$  | 11.17   |
|   |  | 4,970  |   | 5,328   |
|   |  | 7,312  |   | 7,838   |
| <b>Bases</b>  |  |  |   |   |
| <u>Bases</u>  |  |  |   |   |
| Old Town/Manchester   | 115  | \$ 2.80  | \$  | 3.00  |
| Cheaspeak/Franklin  | 233  | 5 3.00   | \$  | 3.22  |
| Jefferson/Winchester  | 710  | 5 3.03   | 5   | 3.25  |
| Norfolk/Essex   | 142  | \$ 3.19  | I   | 3.42  |
|   |  | 322  |   | 345   |
|   |  | 700  |   | 751   |
|   |  | 2,151  |   | 2,307   |
|   |  | 453  |   | 486   |
| Subtotal @ base rates before application of Correction factor |  | \$ 5,095,104   |   | \$ 5,463,137  |
| Correction Factor -   | 0.997825                                       |  | 0.997825  |   |
| Subtotal @ base rates after application of correction factor  |  | \$ 5,106,893   |   | \$ 5,415,640  |
| Fuel Adjustment Clause - proforma for rollin                  |  | (28,056)   |   | (28,056)  |
| Merger Surcredit  |  | (140,918)  |   | (140,918)   |
| Value Delivery Surcredit                                      |  | (31,091)   |   | (31,091)  |
| VDT Amortization & Surcredit Adjustment                       |  | 364  |   | 364   |
| Adjustment to Reflect Year-End Customers                      | 24   | 2,999  |   | 3,225   |
| <b>TOTAL PUBLIC STREET LIGHTING RATE PSL</b>                  |  | <b>\$ 4,910,190</b>                                    |   | <b>\$ 5,279,170</b>                                       |
| <b>PROPOSED INCREASE</b>                                      |  |  |   | <b>\$ 368,901</b>   |
| Percentage increase   |  |  |   | 7.51%   |



LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLL-IN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| <u>Billing Determinants</u>                        | <u>Jan. 2004<br/>ECR<br/>Roll-In<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|--|--|--|---|---|
| <b>OUTDOOR LIGHTING SERVICE RATE OL</b>            |  |  |   |   |
| <u>Lights</u>                                      |  |  |   |   |
| <b>OVERHEAD SERVICE</b>                            |  |  |   |   |
| Mercury Vapor - Installed prior to January 1, 1991 |  |  |   |   |
| 100 Wall   | 728  | \$ 6.78  | \$ 7.27   | \$ 5,293  |
| 175 Wan  | 39,923   | \$ 7.63  | \$ 8.18   | 326,570   |
| 250 Wall   | 19,562   | \$ 8.63  | \$ 9.25   | 180,949   |
| 400 Wall   | 21,141   | \$ 10.44   | \$ 11.19  | 236,568   |
| 1000 Watt  | 4,443  | \$ 18.93   | \$ 20.30  | 90,193  |
| Sodium Vapor. Installed prior to January 1, 1991   |  |  |   |   |
| 100 wan  | 2,836  | \$ 7.53  | \$ 8.07   | 22,887  |
| 150 wan  | 7,820  | \$ 9.82  | \$ 10.32  | 80,702  |
| 250 Watt   | 4,927  | \$ 11.32   | \$ 12.14  | 59,814  |
| 400 Wan  | 50,448   | \$ 11.89   | \$ 12.75  | 643,212   |
| 1000 Watt  |  |  |   |   |
| <u>Poles</u>                                       |  |  |   |   |
| Pole Charges                                       | 56,430   | \$ 1.66  | \$ 1.78   | 100,445   |
| <u>Lights</u>                                      |  |  |   |   |
| <b>UNDERGROUND SERVICE</b>                         |  |  |   |   |
| Mercury Vapor. Installed prior to January 1, 1991  |  |  |   |   |
| 100 Wall Top Mounted                               | 516  | \$ 11.84   | \$ 12.70  | 6,553   |
| 175 Watt Top Mounted                               | 6,781  | \$ 12.57   | \$ 13.48  | 91,408  |
| Sodium Vapor. Installed prior to January 1, 1991   |  |  |   |   |
| 70 Wall Top Mounted                                |  | \$ 10.55   | \$ 11.31  |   |
| 100 Watt Top Mounted                               | 15,235   | \$ 13.93   | \$ 14.94  | 227,611   |
| 150 Watt Top Mounted                               |  |  |   |   |
| 150 Wan  |  | \$ 18.98   | \$ 20.35  |   |
| 250 Watt   | 384  | \$ 21.72   | \$ 23.29  | 8,943   |
| 400 Watt   | 509  | \$ 23.85   | \$ 25.57  | 13,015  |
| 1000 Wall  |  |  |   |   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT RATES REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| Billing Determinants                                    | Jan. 2004<br>ECR<br>Roll-in<br>Rates | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates<br>with ECR<br>Rollin | Calculated<br>Revenue<br>at Settlement<br>Rates |
|---|--------------------------------------|--|---|---|
| <b>OUTDOOR LIGHTING SERVICE RATE OL (continued)</b>     |                                      |  |   |   |
| <b>OVERHEAD SERVICE</b>                                 |                                      |  |   |   |
| <b>Mercury Vapor- Installed after December 31, 1990</b> |                                      |  |   |   |
| 100 watt  |                                      |  |   |   |
| 175 Watt  | 1,127                                | 5 8.99                                       | \$ 9.64                                   | 10,664  |
| 250 Watt  | 733                                  | \$ 10.04                                     | 5 10.77                                   | 7,894   |
| 400 Watt  | 2,232                                | \$ 11.98                                     | 5 12.85                                   | 28,681  |
| 1000 watt   | 4,756                                | \$ 21.50                                     | \$ 23.05                                  | 109,626   |
| <b>Sodium Vapor - Installed after December 31, 1990</b> |                                      |  |   |   |
| 100 watt  | 23,025                               | 5 7.53                                       | 5 8.07                                    | 185,612   |
| 150 wan   | 19,460                               | \$ 9.62                                      | 5 10.32                                   | 200,827   |
| 250 Watt  | 4,986                                | \$ 11.32                                     | \$ 12.14                                  | 60,530  |
| 400 Wall  | 107,923                              | \$ 11.89                                     | \$ 12.75                                  | 1,376,018                                       |
| 1000 watt   | 154                                  | 5 28.16                                      | \$ 30.20                                  | 4,651   |
| <b><u>Poles</u></b>                                     |                                      |  |   |   |
| <b>Pole Charges</b>                                     | 46,247                               | \$ 1.66                                      | \$ 1.78                                   | 62,320  |
| <b>UNDERGROUND SERVICE</b>                              |                                      |  |   |   |
| <b>Mercury Vapor. Installed after December 31, 1990</b> |                                      |  |   |   |
| 100 Wan Top Mounted                                     |                                      | \$ 12.57                                     | \$ 13.48                                  |   |
| 175 Wall Top Mounted                                    | 2,600                                | \$ 13.51                                     | 5 14.49                                   | 37,874  |
| <b>Sodium Vapor. Installed after December 31, 1990</b>  |                                      |  |   |   |
| 70 Watt Top Mounted                                     | 14,991                               | 5 10.55                                      | \$ 11.31                                  | 189,546   |
| 100 Watt Top Mounted                                    | 95,063                               | \$ 13.93                                     | \$ 14.94                                  | 1,420,241                                       |
| 150 Watt Top Mounted                                    | 9,267                                | \$ 18.89                                     | \$ 18.11                                  | 167,825   |
| 150 Watt  | 5,145                                | \$ 18.98                                     | \$ 20.35                                  | 104,701   |
| 250 wan   | 5,605                                | \$ 21.72                                     | 5 23.29                                   | 130,540   |
| 400 Watt  | 16,237                               | \$ 23.85                                     | \$ 25.57                                  | 415,180   |
| 1000 watt   | 286                                  | 5 53.63                                      | \$ 57.51                                  | 16,448  |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT ELECTRIC RATE INCREASE  
 BASED ON SALES FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003  
 PRESENT **RATES** REVISED TO INCLUDE JANUARY 2004 ECR ROLLIN APPLIED TO TEST PERIOD BILLING DETERMINANTS

| <u>Billing Determinants</u>                                   | <u>Jan. 2004<br/>ECR<br/>Roll-In<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates<br/>with ECR<br/>Rollin</u> | <u>Calculated<br/>Revenue<br/>at Settlement<br/>Rates</u> |
|---|--|--|---|---|
| <b>OUTDOOR LIGHTING SERVICE RATE OL (continued)</b>           |  |  |   |   |
| <b>DECORATIVE LIGHTING FIXTURES</b>                           |  |  |   |   |
| Installed after December 31, 1990                             |  |  |   |   |
| <b>Acorn w/ decorative baskets</b>                            | <u>Lights</u>                                  |  |   |   |
| 70 Watt Sodium Vapor  | 243  | \$ 14.95   | I 16.03   | 3,895   |
| 100 Watt Sodium Vapor   | 1,668  | \$ 15.64   | \$ 16.77  | 27,972  |
| <b>3-Sided Coach</b>  |  |  |   |   |
| 70 Watt Sodium Vapor  | 869  | \$ 15.12   | I 16.21   | 14,411  |
| 100 Watt Sodium Vapor   | 336  | \$ 15.61   | \$ 16.95  | 5,695   |
| <b>Poles</b>  | <u>Poles</u>                                   |  |   |   |
| 10ft Smooth   | 1,392  | \$ 6.73  | \$ 9.36   | 13,029  |
| 10ft Fluted   | 1,716  | I 10.42  | \$ 11.17  | 19,167  |
| <b>Bases</b>  | <u>Bases</u>                                   |  |   |   |
| Old Town/Manchester   | 297  | I 2.80   | \$ 3.00   | 892   |
| Cheaspeak/Franklin  | 603  | \$ 3.00  | \$ 3.22   | 1,942   |
| Jefferson/Winchester  | 1,836  | I 3.03   | \$ 3.25   | 5,968   |
| Norfolk/Essex   | 367  | I 3.19   | \$ 3.42   | 1,256   |
| Subtotal @ bass rates before application of correction factor |  | \$ 6,264,808   |   | \$ 6,717,769  |
| Correction Factor:  | 0.996100                                       |  | 0.996100  |   |
| Subtotal @ bass rates after application of correction factor  |  | \$ 8,289,337   |   | \$ 6,744,072  |
| Fuel Adjustment Clause - proforma for rollin                  |  | (29,131)   |   | (29,131)  |
| Merger Surcredit  |  | (172,037)  |   | (172,037)   |
| Value Delivery Surcredit                                      |  | (38,768)   |   | (38,766)  |
| VDT Amortization & Surcredit Adjustment                       |  | 453  |   | 453   |
| Adjustment to Reflect Year-End Customers                      | 115  | 17,114   |   | 18,401  |
| <b>TOTAL OUTDOOR LIGHTING RATE OL</b>                         |  | <u>\$ 6,066,969</u>                                    |   | <u>\$ 6,522,990</u>                                       |
| <b>PROPOSED INCREASE</b>                                      |  |  |   | \$ 456,021  |
| Percentage Increase   |  |  |   | 7.52%   |

**Louisville Gas and Electric Company**  
 Summary of Settlement Gas Rate increase by Rate Class  
 Based on Adjusted Sales and Transportation  
 For the 12 months Ended September 30, 2003

|   | Adjusted<br>Billings at<br>Current Rates | Proposed<br>increase In<br>Revenue<br>As Filed | Percentage<br>Increase | increase<br>Per Proposed<br>Settlement | Percentage<br>increase | Percentage<br>of Total |
|---|--|--|------------------------|--|------------------------|------------------------|
| Residential Gas Service Rate RGS            | \$ 226,193,722                           | \$ 17,187,887                                  | 7.60%                  | \$ 9,782,051                           | 4.32%                  | 83.01%                 |
| Firm Commercial Gas Service Rate CGS        | 103,596,812                              | 1,593,870                                      | 1.54%                  | 1,774,266                              | 1.71%                  | 15.06%                 |
| <b>Firm</b> Industrial Gas Service Rate IGS | 11,973,655                               | 198,751  | 1.66%                  | 218,727                                | 1.83%                  | 1.86%                  |
| As Available Gas Service Rate AAGS          | 3,005,383                                | 6  | 0.00%                  | 8,553                                  | <b>0.28%</b>           | 0.07%                  |
| Firm Transportation Service Rate FT         | 3,939,208                                |  | 0.00%                  |  | 0.00%                  | 0.00%                  |
| Pooling Service Rate PS-FT                  | 60,600                                   |  | 0.00%                  |  | 0.00%                  | 0.00%                  |
| Special Contracts                           | 1,681,970                                |  | 0.00%                  |  | 0.00%                  | 0.00%                  |
| Off-System Sales                            | -  | -  |                        | -                                      |                        |                        |
| <b>Total Sales and Transportation</b>       | <b>350,451,351</b>                       | <b>18,980,514</b>                              | <b>5.42%</b>           | <b>11,783,597</b>                      | <b>3.36%</b>           | <b>100.00%</b>         |
| Forfeited Discounts                         | 1,264,157                                |  |                        |  |                        |                        |
| Reconnection Charges                        | 49,349                                   | 12,006   |                        | 4,002                                  |                        |                        |
| Meter Test Charge                           |  | 31,464   |                        | 31,464                                 |                        |                        |
| Thlr Trlp inspection Charges                | 3,105                                    | 80,730   |                        | 80,730                                 |                        |                        |
| Other <b>Miscellaneous</b> Revenues         | 591,441                                  |  |                        |  |                        |                        |
| <b>Total Revenue</b>                        | <b>\$ 352,359,402</b>                    | <b>\$ 19,104,714</b>                           | <b>5.42%</b>           | <b>\$ 11,899,793</b>                   | <b>3.38%</b>           |                        |

LOUISVILLE GAS AND ELECTRIC COMPANY  
SUMMARY OF SETTLEMENT GAS RATE INCREASE BY RATE CLASS  
BASED ON ADJUSTED SALES AND TRANSPORTATION  
FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003

|                                       | (1)  | (2)  | (3)  | (4)  | (5)   | (6)  | (7)                                     | (8)                               | (9)                                | (10)                         | (11)                |
|---------------------------------------|--|--|--|--|---|--|---|-----------------------------------|------------------------------------|------------------------------|---------------------|
| REVENUE                               | Booked Revenue Adjusted to As Billed Basis | Elimination of Gas Supply Cost Recovery (GSC) Revenues (See Exhibit 7) | Elimination of Demand-Side Management (DSM) Revenues | Temperature Normalization Adjustment (See Exhibit 8) | Year-End Customers Adjustment (See Exhibit 9) | Adjustment to Reflect Rate Switching and Plant Closings (See Exhibit 10) | VDT Amortization & Surcredit Adjustment | GSC @ Current Nov03-Jan04 Charges | Adjusted Billings at Current Rates | Proposed Increase in Revenue | Percentage Increase |
| Residential Gas Service Rate RGS      | \$ 189,080,204                             | \$ (133,898,514)   | \$ (1,034,237)                                       | \$ 19,079  | \$ 114,237                                    | \$   | \$ 149,202                              | \$ 171,563,752                    | \$ 226,193,722                     | \$ 9,782,051                 | 4.32%               |
| Firm Commercial Gas Service Rate CGS  | 86,731,073                                 | (65,436,260)   | (455,264)  | 66,427   | (113,425)                                     | 8,662  | 68,362                                  | 82,727,197                        | 103,596,812                        | 1,774,266                    | 1.71%               |
| Firm Industrial Gas Service Rate IGS  | 9,878,763                                  | (7,986,579)  | -  | (36,404)   | 18,710  |  | 7,518                                   | 10,093,647                        | 11,973,655                         | 218,727                      | 1.83%               |
| As Available Gas Service Rate AAGS    | 3,079,249                                  | (2,757,374)  | (4,883)  | (3,938)  | (988)   | (83,851)   | 2,451                                   | 2,754,718                         | 3,005,383                          | 8,553                        | 0.28%               |
| Firm Transportation Service Rate FT   | 5,308,129                                  | (1,499,335)  | (21,375)   | (30,424)   | (75,115)                                      | 13,838   | 2,953                                   | 242,537                           | 3,939,208                          | -                            | 0.00%               |
| Pooling Service Rate PS-FT            | 60,600                                     |  |  |  |   |  |   |                                   | 60,600                             | -                            | 0.00%               |
| Special Contracts                     | 1,708,443                                  |  |  | (27,762)   | -   |  | 1,290                                   |                                   | 1,681,970                          | -                            | 0.00%               |
| Off-System Sales                      | 10,242,833                                 | (10,242,833)   |  |  |   |  |   |                                   |                                    |                              |                     |
| <b>Total Sales and Transportation</b> | <b>\$ 306,087,293</b>                      | <b>\$ (221,822,896)</b>  | <b>\$ (1,515,759)</b>                                | <b>\$ (13,022)</b>                                   | <b>\$ (56,581)</b>                            | <b>\$ (41,331)</b>   | <b>\$ 231,796</b>                       | <b>\$ 287,381,651</b>             | <b>\$ 350,451,351</b>              | <b>\$ 11,783,597</b>         | <b>3.36%</b>        |
| Forfeited Discounts                   | 1,264,157                                  |  |  |  |   |  |   |                                   | 1,264,157                          |                              |                     |
| Reconnection Charges                  | 49,349                                     |  |  |  |   |  |   |                                   | 49,349                             | 4,002                        |                     |
| Meter Test Charge                     | -  |  |  |  |   |  |   |                                   | -                                  | 31,464                       |                     |
| Third Trip Inspection Charges         | 3,105                                      |  |  |  |   |  |   |                                   | 3,105                              | 80,730                       |                     |
| Other Miscellaneous Revenues          | 591,441                                    |  |  |  |   |  |   |                                   | 591,441                            |                              |                     |
| <b>Total Revenue</b>                  | <b>\$ 307,995,344</b>                      |  |  |  |   |  |   | <b>\$ 382,359,402</b>             | <b>\$ 11,899,793</b>               | <b>3.38%</b>                 |                     |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT GAS RATE INCREASE  
 BASED ON SALES AND TRANSPORTATION  
 FOR THE 12 MONTHS ENDED SEPTEMBER 30.2003

|  | Billing<br>Determinants | Present<br>Rates    | Calculated<br>Revenue<br>at Present<br>Rates | Settlement<br>Rates | Calculated<br>Revenue<br>at Proposed<br>Rates |
|--|-------------------------|---------------------|--|---------------------|---|
| <b>Residential Gas Service Rate RGS</b>                  | <u>Customer Months</u>  | <u>Per customer</u> |  | <u>Per Customer</u> |   |
| Customer Charges:  | 3,332,464               | \$7.00              | 23,327,246                                   | \$8.50              | 28,325,944                                    |
|  | <u>MCF</u>              | <u>Per Mcf</u>      |  | <u>Per Mcf</u>      |   |
| Distribution Cost Component:                             | 24,301,485.5            | \$1.3457            | 32,702,509                                   | \$1.5470            | 37,594,390                                    |
|  |                         |                     | 56,029,757                                   |                     | 65,920,342                                    |
| <b>Residential Gas Service Rate RGS Summer A/C Rider</b> | <u>MCF</u>              | <u>Per Mcf</u>      |  | <u>Per Mcf</u>      |   |
| Distribution Cost Component:                             | 94.0                    | \$0.8457            | 79   | \$1.5470            | 145   |
| Subtotal   | 24,301,579.5            | \$                  | 56,029,837                                   | \$                  | 65,920,487                                    |
| Correction Factor  |                         | 0.99938             |  | 0.99936             |   |
| Subtotal Rate RGS after Application of Correction Factor | 24,301,579.5            | \$                  | 56,065,875                                   | \$                  | 65,962,888                                    |
| Value Delivery Surcredit                                 |                         |                     | (795,671)                                    |                     | (795,671)                                     |
| VDT Amortization & Surcredit Adjustment                  |                         |                     | 149,202                                      |                     | 149,202                                       |
| Temperature Normalization Adjustment                     | (671,526.1)             | \$1.3457            | (903,673)                                    | \$1.5470            | (1,038,851)                                   |
| Adjustment to Reflect Year-End Customers                 | 48,936.3                |                     | 114,237                                      |                     | 134,453                                       |
| GSC at Current (Nov03-Jan04) Charges. GSCC               | 23,678,989.7            | \$                  | 7,2454                                       | \$                  | 7,2454  |
|  |                         |                     | 171,563,752                                  |                     | 171,563,752                                   |
| <b>Total Residential Gas Service Rate RGS</b>            | 23,678,989.7            | \$                  | 226,193,723                                  | \$                  | 235,975,773                                   |
| Proposed Increase in Revenue                             |                         |                     |  |                     | \$9,782,051<br>4.32%                          |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT GAS RATE INCREASE  
 BASED ON SALES AND TRANSPORTATION  
 FOR THE 12 MONTHS ENDED SEPTEMBER 30,2003

|   | <b>Billing<br/>Determinants</b> | <b>Present<br/>Rates</b> | <b>Calculated<br/>Revenue<br/>at Present<br/>Rates</b> | <b>Settlement<br/>Rates</b> | <b>Calculated<br/>Rev<br/>at Proposed<br/>Rates</b> |
|---|---------------------------------|--------------------------|--|-----------------------------|---|
| Firm Commercial Gas Service Rate CGS                            | <i>Customer Months</i>          | <i>Per Customer</i>      |  | <i>Per Customer</i>         |   |
| Customer Charges (Meters < 5000 cf/hr)                          | 281,590                         | \$16.50                  | 4,646,235  | \$16.50                     | 4,646,235   |
| Customer Charges (Meters >= 5000 cf/hr)                         | 11,489                          | \$117.00                 | 1,344,213  | \$117.00                    | 1,344,213   |
|   | 293,079                         |                          |  |                             |   |
|   | <b>MCF</b>                      | <b>Per Mcf</b>           |  | <b>Per Mcf</b>              |   |
| Distribution Cost Component:                                    |                                 |                          |  |                             |   |
| On Peak Mcf   | 10,842,797.2                    | \$1.3457                 | 14,591,152   | \$1.4968                    | 16,229,499  |
| Off Peak Mcf  | 877,844.1                       | \$0.8457                 | 742,393  | \$0.9968                    | 876,035   |
|   | 11,720,641.3                    |                          | 15,333,545   |                             | 17,105,534  |
| <b>Gas Transportation Service/Standby Rider to Rate CGS</b>     | <i>Customer Months</i>          | <i>Per customer</i>      |  | <i>Per Customer</i>         |   |
| Administrative Charges:   | 24                              | \$90.00                  | 2,160  | \$90.00                     | 2,160   |
|   | <b>MCF</b>                      | <b>Per Mcf</b>           |  | <b>Per Mcf</b>              |   |
| Distribution Cost Component:                                    |                                 |                          |  |                             |   |
| On Peak M d   | 88,084.0                        | \$1.3457                 | 118,535  | \$1.4968                    | 131,644   |
| Off Peak Mcf  | 17,767.4                        | \$0.8457                 | 15,026   | \$0.9968                    | 17,711  |
|   | 105,851.1                       |                          | 133,561  |                             | 149,355   |
| Firm Commercial Gas Service Rate CGS Summer A/C Rider           | <b>MCF</b>                      | <b>Per Mcf</b>           |  | <b>Per Mcf</b>              |   |
| Distribution Cost Component:                                    | 40,254.0                        | \$0.8457                 | 34,043   | \$1.4966                    | 60,252  |
| <b>Subtotal</b>   | 11,866,746.7                    |                          | 21,493,156   | \$                          | 23,306,949  |
| Correction Factor   |                                 | 0.99129                  |  | 0.99129                     |   |
| <b>Subtotal Rate CGS after Application of Correction Factor</b> | 11,866,746.7                    |                          | \$21,682,647   |                             | 123,511,114   |
| Value Delivery Surcredit  |                                 |                          | (364,672)  |                             | (364,672)   |
| VDT Amortization & Surcredit Adjustment                         |                                 |                          | 68,382   |                             | 88,382  |
| Temperature Normalization Adjustment                            | (306,160.2)                     | \$1,3457                 | (412,000.1)  | \$1.4966                    | (456,261)   |
| Adjustment to Reflect Year-End Customers                        | (81,647.3)                      |                          | (113,425.1)  |                             | (122,932)   |
| Adjustment for Rate Switching & Plant Closings:                 |                                 |                          |  |                             |   |
| Customer Chgs.  | 12                              | \$117.00                 | 1,404  | \$117.00                    | 1,404   |
| Distribution Chgs. - On-Peak                                    | 4,407.5                         | \$1.3457                 | 5,931  | \$1.4968                    | 8,597   |
| Distribution Chgs. - Off-Peak                                   | 1,592.0                         | \$0.6457                 | 1,346  | \$0.9968                    | 1,567   |
| GSC at Current (Nov03-Jan04) Charges - GSCC                     | 11,402,368.1                    | \$ 7.2454                | 82,614,718   |                             | 82,614,718  |
| GSC at Current Charges - Pipeline Supplier Demand Component     | 102,570.6                       | 1 1.0966                 | 112,479  |                             | 112,479   |
| <b>Total Commercial Gas Service Rate CGS</b>                    | 11,504,938.7                    |                          | \$103,596,811  |                             | \$105,311,071                                       |
| <b>Proposed Increase in Revenue</b>                             |                                 |                          |  |                             | \$1,774,266<br>1.71%                                |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT GAS RATE INCREASE  
 BASED ON SALES AND TRANSPORTATION  
 FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

|   | <u>Billing<br/>Determinants</u> | <u>Present<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Proposed<br/>Rates</u> |
|---|---------------------------------|--------------------------|--|-----------------------------|---|
| <b>Firm Industrial Gas Service Rate IGS</b>                     | <u>Customer Months</u>          | <u>Per Customer</u>      |  | <u>Per Customer</u>         |   |
| Customer Charges (Meters < 5000 cf/hr)                          | 1,463                           | \$16.50                  | 24,140   | \$16.50                     | 24,140  |
| Customer Charges (Meters >= 5000 cf/hr)                         | 1,245                           | \$117.00                 | 145,665  | \$117.00                    | 145,665   |
|   | <u>MCF</u>                      | <u>Per Mcf</u>           |  | <u>Per Mcf</u>              |   |
| Distribution Cost Component:                                    |                                 |                          |  |                             |   |
| On Peak Mcf   | 1,002,298.3                     | \$1.3457                 | 1,346,793  | \$1.4966                    | 1,500,240   |
| Off Peak M d  | 401,064.1                       | \$0.6457                 | 339,160  | \$0.9966                    | 399,761   |
|   | 1,403,362.4                     |                          | 1,657,777  |                             | 2,069,825   |
| <b>Gas Transportation Service/Standby Rider Lo Rate IGS</b>     | <u>Customer Months</u>          | <u>Per Customer</u>      |  | <u>Per Customer</u>         |   |
| Administrative Charges:   | 25                              | \$90.00                  | 2,250  | \$90.00                     | 2,250   |
|   | <u>MCF</u>                      | <u>Per Mcf</u>           |  | <u>Per Mcf</u>              |   |
| Distribution Cost Component:                                    |                                 |                          |  |                             |   |
| On Peak Mcf   | 7,800.3                         | \$1.3457                 | 10,226   | \$1.4966                    | 11,376  |
| Off Peak Mcf  | 11,340.7                        | \$0.8457                 | 9,591  | \$0.9966                    | 11,304  |
|   | 16,941.0                        |                          | 22,069   |                             | 24,931  |
| <b>Subtotal</b>   | 1,422,303.4                     |                          | \$ 1,879,846   |                             | \$ 2,094,756  |
| Correction Factor   |                                 | 0.97367                  |  | 0.97367                     |   |
| <b>Subtotal Rate IGS after Application of Correction Factor</b> | 1,422,303.4                     |                          | \$ 1,930,275   |                             | \$ 2,150,950  |
| Value Delivery Surcredit  |                                 |                          | (40,091)   |                             | (40,091)  |
| VDT Amortization & Surcredit Adjustment                         |                                 |                          | 7,516  |                             | 7,516   |
| Rate Switching / Plant Closings Adjustment                      |                                 |                          |  |                             |   |
| Customer Chgs   |                                 | \$117.00                 |  | \$117.00                    |   |
| On Peak M d   |                                 | \$1.3457                 |  | \$1.4968                    |   |
| Off Peak M d  |                                 | \$0.8457                 |  | \$0.9968                    |   |
| Temperature Normalization Adjustment                            | (27,052.0)                      | \$1.3457                 | (36,404)   | \$1.4966                    | (40,491)  |
| Adjustment to Reflect Year-End Customers                        | 13,764                          |                          | 16,710   |                             | 20,650  |
| GSC at Current (Nov03-Jan04) Charges - GSCC                     | 1,390,271.1                     | \$ 7.2454                | 10,073,070   |                             | 10,073,070  |
| GSC at Current Charges - Pipeline Supplier Demand Component     | 18,764.3                        | \$ 1.0966                | 20,577   |                             | 20,577  |
| <b>Total Industrial Gas Service Rate IGS</b>                    | 1,409,035.4                     |                          | \$ 11,973,655  |                             | \$ 12,192,382   |
| <b>Proposed Increase In Revenue</b>                             |                                 |                          |  |                             | \$218,727<br>1.83%                                      |



| Calculated Revenue | Settlement Rates | Calculated Revenue | Present Rates | Calculated Revenue | Determinants  |
|--------------------|------------------|--------------------|---------------|--------------------|---|
| 27,150             | \$150.00         | 27,150             | \$150.00      | 181                | G-6<br>Customer Charges:                                    |
| 3,240              | \$90.00          | 3,240              | \$90.00       | 36                 | G-6/T-S<br>Administrative Charges:                          |
| 30,390             |                  | 30,390             |               | 217                |   |
| 111,665            | \$0.5252         | 145,747            | \$0.6855      | 212,614.6          | G-6<br>Distribution Cost Component:                         |
| 30,982             | \$0.5252         | 40,438             | \$0.6855      | 58,991.2           | G-6/T-S<br>Subtotal   |
| 173,037            |                  | 216,576            |               | 271,605.8          | Customers Currently Taking                                  |
|                    | Per Customer     |                    | Per Minimum   |                    | Customer Months   |
| 21,800             | \$150.00         | 6,500              | \$500.00      | 144                | Minimum Bills   |
|                    | Per Customer     |                    | Per Minimum   |                    | Customer Months   |
| 130,909            | \$0.5252         | 107,180            | \$0.4300      | 249,255.8          | MCF   |
| 152,509            |                  | 113,680            |               | 249,255.8          | Subtotal  |
| 325,547            |                  | 330,256            |               | 520,861.6          | Subtotal Rate AAGS  |
|                    | \$               |                    | \$            |                    | Correction Factor   |
| 325,357            |                  | 330,063            |               | 520,861.6          | Total Rate AAGS after Application of Correction Factor      |
|                    | \$               |                    | \$            |                    | Value Delivery Surcredit - G6                               |
| (6,580)            |                  | (6,580)            |               | (6,580)            | Value Delivery Surcredit - G7                               |
| 1,234              |                  | 1,234              |               | 1,234              | Value Delivery Surcredit - G6                               |
| (6,492)            |                  | (6,492)            |               | (6,492)            | Value Delivery Surcredit - G7                               |
| 1,217              |                  | 1,217              |               | 1,217              | VDT Amortization & Surcredit Adjustment - G7                |
| \$0.5252           |                  | \$0.6855           |               | (2,467.9)          | VDT Amortization & Surcredit Adjustment - G6                |
| (1,286)            |                  | (1,692)            |               | (5,226.3)          | Temperature Normalization Adjustment - G6                   |
| (2,745)            |                  | (2,247)            |               | (1,240.3)          | Adjustment to Reflect Year-End Customers - G7               |
| (790)              |                  | (988)              |               |                    | Adjustment to Reflect Year-End Customers - G6               |
|                    |                  |                    |               |                    | Adjustment for G6 Rate Switching & Plant Closings:          |
| (5,400)            | \$150.00         | (5,400)            | \$150.00      | (36)               | Customer Chgs.  |
| (2,160)            | 69000            | (2,160)            | \$90.00       | (24)               | Administrative Chgs.  |
| (43,128)           | \$0.5252         | (56,291)           | \$0.6855      | (82,116.8)         | Distribution Chgs.  |
| 2,690,616          |                  | 2,690,616          |               | 371,355.1          | GSC at Current (Nov03-Jan04) Charges - GSCC                 |
| 64,102             |                  | 64,102             |               | 58,455.2           | GSC at Current Charges - Pipeline Supplier Demand Component |
| 3,013,938          |                  | 3,005,383          |               | 429,810.2          | Total As Available Gas Service Rate AAGS                    |
| \$                 |                  | \$                 |               |                    | Proposed Increase in Revenue                                |
| \$8,553            |                  |                    |               |                    |   |
| 0.28%              |                  |                    |               |                    |   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
CALCULATION OF SETTLEMENT GAS RATE INCREASE  
BASED ON SALES AND TRANSPORTATION  
FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

|   | <u>Billing<br/>Determinants</u> | <u>Present<br/>Rates</u>       | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates</u>    | <u>Calculated<br/>Revenue<br/>at Proposed<br/>Rates</u> |
|---|---------------------------------|--------------------------------|--|--------------------------------|---|
| <b>Firm Transportation Service (Non-Standby) Rate FT</b>                |                                 |                                |  |                                |   |
| Administrative Charges:   | <u>Customer Months</u><br>894   | <u>Per Customer</u><br>\$90.00 | 80,460   | <u>Per Customer</u><br>\$90.00 | 80,460  |
| Distribution Cost Component   | <u>MCF</u><br>8,392,666.4       | <u>Per Mcf</u><br>\$0.4300     | 3,608,847  | <u>Per Mcf</u><br>\$0.4300     | 3,608,847   |
| Utilization Charge for Daily Imbalances (UCDI):                         | 930,330.8                       | \$0.1200                       | 111,640  |                                | 111,640   |
| Daily Storage Charge:   | 8,392,666.4                     |                                | 3,800,946  | \$                             | 3,800,946   |
| Subtotal Rate FT  |                                 | 0.99994                        | 3,801,164  | *                              | 3,801,164   |
| Total Rate FT after Application of Correction Factor                    | 8,392,666.4                     |                                | (15,746)   |                                | (15,746)  |
| Value Delivery Surcredit  |                                 |                                | 2,953  |                                | 2,953   |
| VDT Amortization & Surcredit Adjustment                                 |                                 | \$90.00                        | 1,080  |                                | 1,080   |
| Adjustment for G6 Rate Switching & Plant Closings: Administrative Chgs. | 12                              | \$0.4300                       | 12,758   |                                | 12,758  |
| Distribution Chgs.  | 29,670.5                        |                                |  |                                |   |
| Temperature Normalization Adjustment                                    | (70,753.1)                      | \$0.4300                       | (30,424)   |                                | (30,424)  |
| Adjustment to Reflect Year-End Customers                                | (167,555.0)                     |                                | (75,115)   |                                | (75,115)  |
| UCDI Charge - Daily Demand Charge (current Nov03-Jan04)                 | 930,330.8                       | \$ 0.2607                      | 242,537  |                                | 242,537   |
| <b>Total Firm Transportation (Non-Standby) Rate FT</b>                  | 8,154,358.3                     | \$                             | 3,939,208  | \$                             | 3,939,208   |
| <b>Proposed Increase in Revenue</b>                                     |                                 |                                |  | \$                             | \$  |
|   |                                 |                                |  |                                | 0.00%   |
| <b>Pooling Service Rate PS-FT</b>                                       |                                 |                                |  |                                |   |
| Pooling Charges:  | <u>Customer Months</u><br>808   | <u>Per Customer</u><br>\$75.00 | \$60,600   |                                | \$60,600  |
| Correction Factor   |                                 | 1.00000                        |  |                                |   |
| <b>Total Pooling Service Rate PS-FT</b>                                 |                                 |                                | \$60,600   |                                | \$60,600  |
| <b>Proposed Increase in Revenue</b>                                     |                                 |                                |  |                                | \$0   |
|   |                                 |                                |  |                                | 0.00%   |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 MONTHLY SETTLEMENT GAS RATE INCREASE  
 BASED ON SALES AND TRANSPORTATION  
 FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2003

| Calculated Revenue at Proposed Rates | Settlement Rates | Calculated Revenue at Present Rates | Present Rates | Billing Determinants                            | Special Contract | Special Contract |
|--------------------------------------|------------------|-------------------------------------|---------------|---|------------------|------------------|
| 310,631                              | \$0.1049         | 310,631                             | \$0.1049      | Customer Months                                 | 2,160            | 2,160            |
| 116,181                              | \$2.7500         | 116,181                             | \$2.7500      | Customer Charges:                               | \$180.00         | \$180.00         |
| 430,053                              |                  | 430,053                             |               | Administrative Charges:                         | 12               | 12               |
| 430,078                              | 0.99994          | 430,078                             | 0.99994       | Customer Charges:                               | 12               | 12               |
| 329                                  |                  | 329                                 |               | Distribution Cost Component                     | MCF              | MCF              |
| (1,754)                              | \$0.1049         | (1,754)                             | \$0.1049      | Subtotal After Application of Correction Factor | 1,324,790.6      | 1,324,790.6      |
| 424,825                              |                  | 424,825                             |               | Subtotal  | 71,028.5         | 71,028.5         |
| -                                    |                  | -                                   |               | Demand Charges                                  |                  |                  |
| 0.00%                                |                  | 0.00%                               |               | Correction Factor                               |                  |                  |
|                                      |                  |                                     |               | Subtotal After Application of Correction Factor | 1,00000          | 1,00000          |
|                                      |                  |                                     |               | VDT Amortization & Surcredit Adjustment         | 263              | 263              |
|                                      |                  |                                     |               | Value Delivery Surcredit                        | (1,402)          | (1,402)          |
|                                      |                  |                                     |               | Temperature Normalization Adjustment            | (1,108)          | (1,108)          |
|                                      |                  |                                     |               | Total Special Contract                          | 335,292          | 335,292          |
|                                      |                  |                                     |               | Proposed Increase in Revenue                    | 1,314,228.9      | 1,314,228.9      |

LOUISVILLE GAS AND ELECTRIC COMPANY  
 CALCULATION OF SETTLEMENT GAS RATE INCREASE  
 BASED ON SALES AND TRANSPORTATION  
 FOR THE 12 MONTHS ENDED SEPTEMBER 30

|   | <u>Billing<br/>Determinants</u> | <u>Present<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Present<br/>Rates</u> | <u>Settlement<br/>Rates</u> | <u>Calculated<br/>Revenue<br/>at Proposed<br/>Rates</u> |
|---|---------------------------------|--------------------------|--|-----------------------------|---|
| <b>Special Contract</b>                         | <u>Customer Months</u>          | <u>Per Customer</u>      |  | <u>Per Customer</u>         |   |
| Customer Charges:                               | 24                              | \$180.00                 | 4.320  | \$180.00                    | 4.320   |
| Administrative Charges:                         | 24                              | \$90.00                  | 2.160  | \$90.00                     | 2.160   |
|   | <u>MCF</u>                      | <u>Per M d</u>           |  | <u>Per Mcf</u>              |   |
| Distribution Cost Component                     | 2,941,326.6                     | \$0.3200                 | 941.225  | \$0.3200                    | 041.225   |
| <b>Subtotal</b>                                 |                                 |                          | I 947.705  | \$ 1.00000                  | 947.705   |
| Correction Factor                               |                                 |                          | \$ 1.00000   | I 1.00000                   | 947.704   |
| Subtotal After Application of Correction Factor |                                 |                          | 698  |                             | 698   |
| VDT Amortization & Surcredit Adjustment         |                                 |                          | (3,723)  |                             | (3,723)   |
| Value Delivery Surcredit                        |                                 |                          | (22,827)   |                             | (22,627)  |
| Temperature Adjustment                          | (71,333.1)                      | \$0.3200                 |  | \$0.3200                    |   |
| <b>Total Special Contract</b>                   | 2,869,993.5                     |                          | \$ 921,853   | \$ I                        | 921.853   |
| Proposed Increase in Revenue                    |                                 |                          |  |                             | 0.00%   |
| <b>Reserved Balancing Service Rate RBS</b>      | <u>MCF</u>                      | <u>Per Mcf</u>           |  | <u>Per Mcf</u>              |   |
| Monthly Balancing Charge:                       |                                 | \$ 3.65                  | \$0  | I 3.85                      | \$0   |
| Monthly Demand Charge:                          |                                 | I 7.93                   | \$0  | I 7.93                      | \$0   |
| Correction Factor                               |                                 |                          | \$0  |                             | \$0   |
| Total after Application of Correction Factor    |                                 |                          | \$0  | 0                           | \$0   |
| Proposed Increase in Revenue                    |                                 |                          |  |                             | \$0<br>0.00%  |

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAY 04 2004

In the Matter of:

AN ADJUSTMENT OF THE GAS )  
AND ELECTRIC RATES, TERMS )  
AND CONDITIONS OF LOUISVILLE )  
GAS AND ELECTRIC COMPANY )

PUBLIC SERVICE  
CASE NO. 2003-00433

In the Matter of:

AN ADJUSTMENT OF THE ELECTRIC )  
RATES, TERMS AND CONDITIONS )  
OF KENTUCKY UTILITIES COMPANY )

CASE NO: 2003-00434

STIPULATION

WHEREAS, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KUC") collectively "Companies") filed applications to make general adjustments to the Companies' rates, terms and conditions on December 29, 2003 in Case Nos. 2003-00433 and 2003-00434;

WHEREAS, The Kroger Co. was granted full intervention by the Kentucky Public Service Commission ("Commission") on January 22, 2004;

WHEREAS, the Companies and The Kroger Co. (the "parties") wish to facilitate the disposition of these two proceedings through the submission of a joint stipulation on revenue requirement and rate design issues; and,

NOW THEREFORE, pursuant to 807 KAR 5:001 Section 4(6) the parties stipulate as follows:

The Companies will request authority ~~from~~ the Commission to offer experimental time-of-day rate schedules for commercial customers whose maximum monthly ~~demands were~~ greater than 250 KW and less than ~~2,000~~ KW during the calendar year 2003 on a revenue-neutral basis. The experimental time-of-day rate schedules ~~will~~ be available to 100 accounts ~~currently~~ served under Rate LC by LG&E, and to 100 ~~accounts~~ currently served under Rate LP by KU.

2 After three years, the Companies will evaluate the performance of the experimental time-of-day rate schedules ~~for~~ the following purposes: (i) to determine the amount of load ~~shifted from~~ the on-peak period ~~to~~ the off-peak period, (ii) to determine the amount of revenue ~~loss~~ from the experimental time-of-day rate schedules, (iii) to evaluate customer acceptance of the experimental time-of-day rate schedules, and (iv) to evaluate the potential for implementing the experimental time-of-day rate schedules ~~as~~ either a permanent demand-side management program or ~~as~~ a standard rate schedule. The Companies shall file a report with the Commission describing their findings ~~within six~~ months ~~after~~ the ~~first~~ three years of implementation of the experimental time-of-day rate ~~schedules~~. The experimental time-of-day rate schedules shall ~~remain in~~ effect ~~until~~ the rate schedules are terminated by order of the ~~commission~~.

3. Any customer-specific ~~costs of offering~~ the experimental time-of-day rate schedules, including but ~~not~~ limited to the additional ~~cost~~ of the metering equipment, meter reading, and customer-specific billing ~~costs~~, shall be ~~recovered through~~ a monthly facilities charge billed ~~to the participants~~ of the ~~experimental~~ time-of-day rate schedules. The monthly facilities charge ~~shall~~ be \$15.00 per customer ~~per~~ month.

4. The experimental time-of-day rate schedule for customers served under LG&E's Rate LC ~~shall~~ include energy charges corresponding to \$0.0300 per kWh during the designated

on-peak period and \$0.0140 per kWh during the designated off-peak period. These charges are based on an energy charge filed by LG&E of \$0.0240/kWh. Should the Commission approve an energy charge in this proceeding for Rate LC that differs from the one filed by LG&E, the on-peak and off-peak energy charges shall be adjusted pro-rata to reflect the energy charge established by the Commission. During the summer billing months of June through September, the designated on-peak period shall be: weekdays, from 10 AM. to 9 P.M. Eastern Standard Time (EST) during the four monthly billing periods of June through September. During the winter billing months of October through May, the designated on-peak period shall be: weekdays, from 8 A.M. to 10 P.M Eastern Standard Time (EST) during the eight monthly billing periods of October through May. The designated off-peak period shall be all hours not included during the summer and winter peak periods. The demand and customer charges shall be the same as approved by the Commission for Rate LC.

5. The experimental time-of-day rate schedule for customers served under KU's Schedule LP shall include energy charges corresponding to \$0.0280 per kWh during the designated on-peak period and \$0.0150 per kWh during the designated off-peak period. These charges are based on an energy charge filed by KU of \$0.0220/kWh. Should the Commission approve an energy charge for Schedule LP in this proceeding that differs from the one filed by KU, the on-peak and off-peak energy charges shall be adjusted pro-rata to reflect the energy charge established by the Commission. During the summer billing months of June through September, the designated on-peak period shall be: weekdays, from 10 A.M. to 9 P.M. Eastern Standard Time (EST) during the four monthly billing periods of June through September. During the winter billing months of October through May, the designated on-peak period shall be: weekdays, from 8 A.M. to 10 P M Eastern Standard Time (EST) during the eight monthly

billing periods of October through May. **The** designated off-peak period shall be **all hours** not included during the **summer** and winter **peak** periods. The demand and customer charges shall be the same as approved by the Commission for Schedule LP.

6. **The non-customer specific costs** of modifying LG&E's customer billing system to bill customers under the experimental time-of-day rate schedule will be recovered **through a** charge per kWh billed to **customers** taking **service** under Rate LC determined in the **same manner as** the **DSM** Cost Recovery Component of **LG&E's** Demand-Side Management **Cost Recovery Mechanism**. The **cost** of modifying LG&E's customer billing system is estimated to be a total of **\$87,150**, or **\$29,050** annually for three years. **The charge would be \$0.00001/kWh.**

7. **The non-customer specific costs** of modifying KU's customer billing system to bill customers under the experimental time-of-day rate schedule will be recovered through a charge per kWh billed to customers **taking service** under Rate LP determined in the **same manner as** the DSM Cost Recovery Component of KU's Demand-Side Management Cost Recovery Mechanism. The **cost** of modifying **KU's** customer billing **system** is estimated to be a **total** of **\$87,150**, or **\$29,050** annually for three years. **The charge would be \$0.00001/kWh.**

8. LG&E will collect any revenue from lost **sales from** the experimental time-of-day rate schedule **through a** charge billed to **customers** taking service **under** Rate LC determined in the same manner **as** the DSM Revenue From **Lost Sales** Component of LG&E's Demand-Side Management **Cost Recovery Mechanism**. **The Revenue From Lost Sales** will be determined annually by comparing billings of **customers taking service under** the experimental time-of-day **rate schedule to billings** computed under Rate **LC** for twelve-month periods.

9. KU will collect any revenue from lost **sales from** the experimental time-of-day rate **schedule through** a charge billed to customers **taking** service under Rate LP determined in



the same manner as the DSM Revenue ~~From~~ Lost Sales Component of KU's Demand-Side Management Cost Recovery ~~Mechanism~~. The Revenue ~~From~~ Lost Sales will be determined annually by comparing billings of customers taking **service** under the experimental ~~time-of-day~~ rate schedule ~~to~~ billings computed under Rate LP for twelve-month periods.

10. The experimental **time-of-day** rate schedules will become effective fourteen ~~weeks~~ after the dates of the **Commission's** Orders in the above-captioned proceedings.

11. The Kroger Co. **shall** withdraw the direct testimony **submitted** by Kevin C. Higgins on behalf of The Kroger Co. **in** Case Nos. 2003-00433 and 2003-00434 and **shall** not otherwise contest the Companies' proposals **in** CaseNos. 2003-00433 and 2003-00434 regarding the **application** of the Merger Surcredits, the shareholder components of the **Merger** Surcredits, the VDT Surcredits, the shareholder components of the VDT Surcredits, the Companies' proposed revenue **increase**, or the Companies' proposed allocation of the rate increase.

The parties submit ~~the~~ foregoing stipulation **is a fair, just and** reasonable resolution of the issues identified herein and request the Commission to ~~determine~~ the **resolution** of the issues herein based upon the stipulation.

Dated: May 4, 2004

Respectfully submitted,



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

Dorothy E. O'Brien  
Deputy General Counsel  
LG&E Energy LLC  
220 ~~West Main~~ Sheet  
Post Office Box 32010  
Louisville, Kentucky 40232  
Telephone: (502) 627-2561

COUNSEL FOR LOUISVILLE GAS AND  
ELECTRIC COMPANY AND KENTUCKY  
UTILITIES COMPANY

- and -



David C. Brown  
Stites & Harbison, PLLC  
400 ~~West Market~~ Sheet  
Suite 1800  
Louisville, Kentucky 40202-3352

COUNSEL FOR THE KROGER COMPANY

| STANDARD RATE SCHEDULE  | STOD                     |
|---|--------------------------|
| <b>Small Time of Day Rate</b>   |                          |
| <b>APPLICABLE</b>   |                          |
| In all territory served.  |                          |
| <b>AVAILABILITY OF SERVICE</b>  |                          |
| Available to commercial customers whose average maximum monthly demands are greater than 250 KW and less than 2,000KW.  |                          |
| <ul style="list-style-type: none"> <li>a) STOD shall be available as an optional pilot program for three years effective 14 weeks following the Final Order in PSC Case No 2003-00433 for existing customers on Rate LC, Original Sheet No 15, PSC of Kentucky Electric No 6.</li> <li>b) As an optional pilot program, STOD is restricted to 100 customers. The Company will notify all eligible customers of STOD and accept applications on a first-come-first-served basis with the beginning of business 6 weeks following the Final Order in PSC Case No 2003-00433.</li> <li>c) For each year or partial year of the pilot program, programming costs plus lost revenues will be recovered from customers served under Rate LC by a program cost recovery mechanism.</li> <li>d) No customers will be accepted for STOD following the end of the second year of the pilot program.</li> <li>e) The Company will file a report on STOD with the Commission within six months of the end of the third year of the pilot program. Such report will detail findings and recommendations.</li> <li>f) STOD shall remain in effect until terminated by order of the Commission.</li> </ul> |                          |
| <b>RATE</b>   |                          |
| Customer Charge: \$80.00 per month  |                          |
| Plus a Demand Charge:   |                          |
| Winter Rate applies to the eight consecutive billing months October through May   |                          |
| Secondary Service -   | \$11.14 per KW per month |
| Primary Service -   | \$ 9.52 per KW per month |
| Summer Rate applies to the four consecutive billing months June through September   |                          |
| Secondary Service -   | \$14.20 per KW per month |
| Primary Service -   | \$12.32 per KW per month |
| Plus an Energy Charge of:   |                          |
| On-Peak Energy -  | \$0.02936 per KWH        |
| Off-Peak Energy -   | \$0.01370 per KWH        |
| Where the On-Peak Energy is defined for bills rendered during a billing period as the metered consumption from:   |                          |
| <ul style="list-style-type: none"> <li>a) 10 A.M. to 9 P.M., Eastern Standard Time, on weekdays for the four consecutive billing months of June through September or</li> <li>b) 8 A.M. to 10 P.M., Eastern Standard Time, on weekdays for the eight consecutive billing months from October through May.</li> </ul>  |                          |
| All other metered consumption shall be defined as Off-Peak Energy.  |                          |
| <b>DETERMINATION OF BILLING DEMAND</b>  |                          |
| The monthly billing demand shall be the highest average load in kilowatts recorded during any 15-minute interval in the monthly billing period: but not less than 50% of the maximum demand similarly determined for any of the four billing periods of June through September within the 11 preceding months; nor less than 25 kilowatts (10 kilowatts to any customer served under this rate schedule on March 1, 1964).  |                          |

N

Date of Issue:

**Issued By**  
**Michael S. Beer, Vice President**  
 Louisville, Kentucky

Date Effective:

**STANDARD RATE SCHEDULE**

**STOD**

**Small Time of Day Rate**

**PROGRAM COST RECOVERY MECHANISM**

The monthly billing amount computed under Rate LC shall be adjusted by the Program Cost Recovery Factor which shall be calculated per KWH in accordance with the following formula:

$$\text{Program Cost Recovery Factor} = (\text{PC} + \text{LR}) / \text{LPKWH}$$

Where:

- a) PC is the cost of programming the billing system and will be no more than \$29,050 for each of the three years of the pilot program.
- b) LR is the lost revenues of the pilot program calculated by subtracting the revenues that would have been billed under Rate LC from the revenues realized by actual billings under STOD. LR will be calculated for the first program year and applied in the second program or recovery year. That procedure will repeat for each year or partial year the pilot is in effect.
- c) LPKWH is the expected KWH energy sales for the LC rate in the recovery year.
- d) The Company will file any change in the Program Cost Recovery Factor with supporting calculations ten days prior to application.

**ADJUSTMENT CLAUSES**

The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:

|  |              |
|--|--------------|
| Fuel Adjustment Clause                         | Sheet No. 70 |
| Demand Side Management Cost Recovery Mechanism | Sheet No. 71 |
| Environmental Cost Recovery Surcharge          | Sheet No. 72 |
| Merger Surcredit Rider                         | Sheet No. 73 |
| Earnings Sharing Mechanism                     | Sheet No. 74 |
| Value Delivery Surcredit Rider                 | Sheet No. 75 |
| Franchise Fee Rider                            | Sheet No. 76 |
| School Tax                                     | Sheet No. 77 |

**MINIMUM CHARGE**

The bill shall in no event be less than the Customer Charge plus the Demand Charge computed upon the billing demand for the month.

**LATE PAYMENT CHARGE**

The bill will be rendered at the above net charges (including net minimum bills when applicable) plus an amount equivalent to 1% thereof, which amount will be deducted provided bill is paid within 15 days from date

**EXIT AND EMERGENCY LIGHTING**

Where governmental code or regulation requires a separate circuit for exit or emergency lighting, the demand and consumption of such separate circuit may be combined for billing with those of the principal light and power circuit or circuits

**TERM OF CONTRACT**

For a fixed term of not less than one year and for such time thereafter until terminated by either party giving 30 days written notice to the other of the desire to terminate. A customer exiting the pilot program will not be allowed to return to it until the Commission has issued a decision on the STOD program report.

Date of Issue:

Issued By  
Michael S. Beer, Vice President  
Louisville, Kentucky

Date Effective:

N

|  |             |
|--|-------------|
| <b>STANDARD RATE SCHEDULE</b>  | <b>STOD</b> |
| <b>Small Time of Day Rate</b>  |             |
| <p><b>TERMS AND CONDITIONS</b><br/>         Service will be furnished under Company's Terms and Conditions applicable hereto</p> |             |

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Date of Issue:

Issued By  
Michael S. Beer, Vice President  
Louisville, Kentucky

Date Effective:

| ELECTRIC RATE SCHEDULE  | STOD                    |                     |                         |                   |                         |                        |                         |                  |                   |                   |                   |
|---|-------------------------|---------------------|-------------------------|-------------------|-------------------------|------------------------|-------------------------|------------------|-------------------|-------------------|-------------------|
| <b>Small Time-of-Day Service</b>  |                         |                     |                         |                   |                         |                        |                         |                  |                   |                   |                   |
| <p><b>APPLICABLE</b><br/>In all territory sewed by the Company.</p> <p><b>AVAILABILITY OF SERVICE</b><br/>Available to commercial customers whose average maximum monthly demands are greater than 250 KW and less than 2,000KW.</p> <ol style="list-style-type: none"> <li>a) STOD shall be available as an optional pilot program for three years effective 14 weeks following the Final Order in PSC Case No 2003-00434 for existing customers on Rate LP, Original Sheet No 20, PSC No 13.</li> <li>b) As an optional pilot program, STOD is restricted to 100 customers. The Company will notify all eligible customers of STOD and accept applications on a first-come-first-served basis with the beginning of business 6 weeks following the Final Order in PSC Case No 2003-00434.</li> <li>c) For each year or partial year of the pilot program, programming costs plus lost revenues will be recovered from customers served under Rate LP by a program cost recovery mechanism.</li> <li>d) No customers will be accepted for STOD following the end of the second year of the pilot program.</li> <li>e) The Company will file a report on STOD with the Commission within six months of the end of the third year of the pilot program. Such report will detail findings and recommendations</li> <li>f) STOD shall remain in effect until terminated by order of the Commission.</li> </ol> <p><b>RATE</b><br/>Customer Charge: \$90.00 per month</p> <p>Plus a Demand Charge:</p> <table style="margin-left: 40px;"> <tr> <td>Secondary Service -</td> <td>\$6.65 per KW per month</td> </tr> <tr> <td>Primary Service -</td> <td>\$6.26 per KW per month</td> </tr> <tr> <td>Transmission Service -</td> <td>\$5.92 per KW per month</td> </tr> </table> <p>Plus an Energy Charge of:</p> <table style="margin-left: 40px;"> <tr> <td>On-Peak Energy -</td> <td>\$0.02800 per KWH</td> </tr> <tr> <td>Off-Peak Energy -</td> <td>\$0.01500 per KWH</td> </tr> </table> <p>Where the On-Peak Energy is defined for bills rendered during a billing period as the metered consumption from:</p> <ol style="list-style-type: none"> <li>a) 10 A.M. to 9 P.M., Eastern Standard Time, on weekdays for the four consecutive billing months of June through September or</li> <li>b) 8 A.M. to 10 P.M., Eastern Standard Time, on weekdays for the eight consecutive billing months from October through May.</li> </ol> <p>All other metered consumption shall be defined as Off-Peak Energy.</p> <p><b>DETERMINATION OF MAXIMUM LOAD</b><br/>The load will be measured and will be the average KW demand delivered to the customer during the 15-minute period of maximum use during the month.</p> <p>The company reserves the right to place a KVA meter and base the billing demand on the measured KVA. The charge will be computed based on the measured KVA times 90 percent of the applicable KW charge.</p> |                         | Secondary Service - | \$6.65 per KW per month | Primary Service - | \$6.26 per KW per month | Transmission Service - | \$5.92 per KW per month | On-Peak Energy - | \$0.02800 per KWH | Off-Peak Energy - | \$0.01500 per KWH |
| Secondary Service -   | \$6.65 per KW per month |                     |                         |                   |                         |                        |                         |                  |                   |                   |                   |
| Primary Service -   | \$6.26 per KW per month |                     |                         |                   |                         |                        |                         |                  |                   |                   |                   |
| Transmission Service -  | \$5.92 per KW per month |                     |                         |                   |                         |                        |                         |                  |                   |                   |                   |
| On-Peak Energy -  | \$0.02800 per KWH       |                     |                         |                   |                         |                        |                         |                  |                   |                   |                   |
| Off-Peak Energy -   | \$0.01500 per KWH       |                     |                         |                   |                         |                        |                         |                  |                   |                   |                   |

Date of Issue:

**Issued By**  
Michael S. Beer, Vice President  
Lexington, Kentucky

Date Effective:

|  |  |
|--|--|
| <b>ELECTRIC RATE SCHEDULE</b>  | <b>STOD</b>  |
| <b>Small Time-of-Day Service</b>   |  |
| <p>In lieu of placing a KVA meter, the Company may adjust the measured maximum load for billing purposes when power factor is less than 90 percent in accordance with the following formula:<br/>(BASED ON POWER FACTOR MEASURED AT TIME OF MAXIMUM LOAD).</p> <p style="text-align: center;">Adjusted Maximum KW Load for Billing Purposes = <math>\frac{\text{Maximum Load Measured} \times 90\%}{\text{Power Factor (in Percent)}}</math></p>   |  |
| <p><b>PROGRAM COST RECOVERY MECHANISM</b></p> <p>The monthly billing amount computed under Rate LP shall be adjusted by the Program Cost Recovery Factor which shall be calculated per KWH in accordance with the following formula:</p> <p style="text-align: center;">Program Cost Recovery factor = <math>(PC + LR) / LPKWH</math></p> <p>Where:</p> <ul style="list-style-type: none"> <li>a) PC is the cost of programming the billing system and will be no more than \$29,050 for each of the three years of the pilot program.</li> <li>b) LR is the lost revenues of the pilot program calculated by subtracting the revenues that would have been billed under Rate LP from the revenues realized by actual billings under STOD. LR will be calculated for the first program year and applied in the second program or recovery year. That procedure will repeat for each year or partial year the pilot is in effect.</li> <li>c) LPKWH is the expected KWH energy sales for the LP rate in the recovery year.</li> <li>d) The Company will file any changes to the Program Cost Recovery Factor with supporting calculations ten days prior to application.</li> </ul> |  |
| <p><b>ADJUSTMENT CLAUSES</b></p> <p>The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:</p>  |  |
| <ul style="list-style-type: none"> <li>Fuel Adjustment Clause</li> <li>Demand Side Management Cost Recovery Mechanism</li> <li>Environmental Cost Recovery Surcharge</li> <li>Merger Surcredit Rider</li> <li>Earnings Sharing Mechanism</li> <li>Value Delivery Surcredit Rider</li> <li>Franchise Fee Rider</li> <li>School Tax</li> </ul>   | <ul style="list-style-type: none"> <li>Sheet No. 70</li> <li>Sheet No. 71</li> <li>Sheet No. 72</li> <li>Sheet No. 73</li> <li>Sheet No. 74</li> <li>Sheet No. 75</li> <li>Sheet No. 76</li> <li>Sheet No. 77</li> </ul> |
| <p><b>MINIMUM CHARGE</b></p> <p>Service under this schedule is subject to an annual minimum of \$81.24 per kilowatt for secondary delivery, \$77.16 per kilowatt for primary delivery and \$73.08 per kilowatt for transmission delivery for each yearly period based on the greater of (a), (b), (c), (d), or (e) as follows:</p> <ul style="list-style-type: none"> <li>(a) The highest monthly maximum load during such yearly period.</li> <li>(b) The contract capacity, based on the expected maximum KW demand upon the system.</li> <li>(c) 60 percent of the KW capacity of facilities specified by the customer.</li> <li>(d) Secondary delivery, \$812.40 per year; Primary delivery, \$1,929.00 per year; Transmission delivery, \$3,654.00 per year.</li> <li>(e) Minimum may be adjusted where customer's service requires an abnormal investment in special facilities.</li> </ul>  |  |

Date of Issue:

Issued By  
Michael S. Beer, Vice President  
Lexington, Kentucky

Date Effective:

**ELECTRIC RATE SCHEDULE**

**STOD**

**Small Time-of-Day Service**

Payments to be made monthly of not less than 1/12 of the Annual Minimum until the aggregate payments during the contract year equal the Annual Minimum. However, payments made in excess of the amount based on above rate schedule will be applied as a credit on billings for energy used during contract year. A new customer or an existing customer having made a permanent change in the operation of electrical equipment that materially affects the use in kilowatt-hours and/or use in kilowatts of maximum load will be given an opportunity to determine new service requirements in order to select the most favorable contract year period and rate applicable.

**DUE DATE OF BILL**

Customer's payment will be due within 10 days from date of bill

**TERM OF CONTRACT**

For a fixed term of not less than one year and for such time thereafter until terminated by either party giving 30 days written notice to the other of the desire to terminate. A customer exiting the pilot program will not be allowed to return to it until the Commission has issued a decision on the STOD program report.

**TERMS AND CONDITIONS**

Service will be furnished under Company's Terms and Conditions applicable hereto



Date of Issue:

**Issued By**  
**Michael S. Beer, Vice President**  
**Lexington, Kentucky**

Date Effective:



Case Nos. 2003-00433 and 2003-00434 – LG&E and KU  
Modification of Environmental Surcharge (ECR)

KU

- The rate base, operating expenses, and gross proceeds from by-product and allowance sales included in KU's environmental surcharge associated with its 1994 Compliance Plan ("1994 Plan") will be included and recovered through KU's base rates.
- KU's 1994 Plan will be removed from its environmental surcharge.
- The Base Period Jurisdictional Environmental Surcharge Factor ("BESF) in KU's surcharge will be recalculated to remove the effects of KU's 1994 Plan. The calculation of the revised BESF will be included as part of the first monthly surcharge filing submitted after the removal of the 1994 Plan from the environmental surcharge.
- The costs and allowance expense associated with the sulfur dioxide ("SO<sub>2</sub>") emission allowances received from the Owensboro Municipal Utilities will be included as a component of the environmental surcharge costs recovered as part of KU's Post-1994 Plan.
- For KU, any environmental surcharge reporting format that exclusively reports information associated with the 1994 Plan will be deleted from the monthly surcharge filing. For reporting formats presenting information associated with both the 1994 Plan and Post-1994 Plan, the 1994 Plan information will be shown as "0". Reporting formats will be renumbered to reflect the deleted reporting formats during the next surcharge review.
- KU's ES Form 2.31, "Inventory of Emission Allowances – Current Vintage Year," will no longer be included with the monthly environmental surcharge filings. KU will continue to include Form 2.30, "Inventory of Emission Allowances – Current Vintage Year."

LG&E

- The rate base, operating expenses, and gross proceeds from by-product and allowance sales included in LG&E's environmental surcharge associated with its 1995 Compliance Plan ("1995 Plan") will be included and recovered through LG&E's base rates.
- LG&E's 1995 Plan will be removed from its environmental surcharge.
- The BESF in LG&E's surcharge will be recalculated to remove the effects of its 1995 Plan. The calculation of the revised BESF will be included as part of the first monthly surcharge filing submitted after the removal of the 1995 Plan from the environmental surcharge.

monthly surcharge filing submitted after the removal of the 1995 Plan from the environmental surcharge.

- For LG&E, any environmental surcharge reporting format that exclusively reports information associated with the 1995 Plan will be deleted from the monthly surcharge filing. For reporting formats presenting information associated with both the 1995 Plan and Post-1995 Plan, the 1995 Plan information will be shown as "0". Reporting formats will be renumbered to reflect the deleted reporting formats during the next surcharge review.

## APPENDIX D

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00434 DATED June 30, 2004

#### Determination of KU's Jurisdictional Rate Base Ratio And the Pro Forma Adjustments to KU's Jurisdictional Rate Base

#### Jurisdictional Rate Base Ratio

The determination of KU's jurisdictional capitalization reflects the allocation of the total company capitalization using an allocation factor based on KU's actual test-year jurisdictional rate base compared to the total company rate base.

|   | Jurisdictional<br>Rate Base<br><u>As of 09/30/03</u> | Total Company<br>Rate Base<br><u>As of 09/30/03</u> |
|---|--|---|
| Total Utility Plant in Service                              | \$3,065,995,545                                      | \$3,527,901,229                                     |
| Add:  |  |   |
| Materials & Supplies  | 57,926,039   | 66,981,537  |
| Prepayments   | 2,935,464  | 3,360,692   |
| Emission Allowances   | 59,742   | 69,415  |
| Cash Working Capital Allowance                              | <u>52,060,201</u>                                    | <u>59,554,982</u>                                   |
| Subtotal  | \$ 112,981,446                                       | \$ 129,966,626                                      |
| Deduct:   |  |   |
| Accumulated Depreciation                                    | 1,391,726,423  | 1,600,258,255                                       |
| Customer Advances   | 1,455,980  | 1,504,616   |
| ADIT  | 244,773,165  | 286,727,746   |
| SFAS 109 ADIT   | (17,891,956)   | (19,948,859)  |
| Investment Tax Credit (prior law)                           | <u>5,453,260</u>                                     | <u>6,519,139</u>                                    |
| Subtotal  | \$1,625,516,872                                      | \$1,875,060,897                                     |
| Net Original Cost Rate Base                                 | <u>\$1,553,460,119</u>                               | <u>\$1,782,806,958</u>                              |
| Percentage of Electric Rate Base to Total Company Rate Base |  | 87.14%  |

The electric and total company rate base calculations match those submitted by LG&E in Rives Direct Testimony, Rives Exhibit 3, page 1 of 2, with the except of:

- the treatment of Accumulated Deferred Income Taxes ("ADIT"), which are described in the Order;
- the utility plant balances, accumulated depreciation balances, and cash working capital allowances shown in Rives Exhibit 3 did not agree with the KU's Trial Balance, See Response to the Commission Staff's First Data Request dated December 19, 2003, Item 13(a)(b). The Commission has used the balances shown in the trial balance.

APPENDIX D (continued)

Pro Forma Adjustments to KU's Jurisdictional Rate Base

|                                | <u>Post-1994<br/>Environmental<br/>Surcharge</u> | <u>E. W. Brown<br/>Improvement<br/>Reimburse.</u> | <u>SFAS<br/>No. 143<br/>Adjustment</u> | <u>Retire<br/>Green River<br/>Units 1 &amp;2</u> | <u>Commission<br/>Expense<br/>Adjustments</u> | <u>Total All<br/>Pro Forma<br/>Adjustments</u> |
|--------------------------------|--|---|--|--|---|--|
| Total Utility Plant in Service | (137,666,130)                                    | (4,706,912)                                       | (7,408,501)                            | (18,137,447)                                     | 0   | (167,918,990)                                  |
| Add:                           |  |   |  |  |   |  |
| Materials & Supplies           | 0  | 0   | 0                                      | 0  | 0   | 0  |
| Prepayments                    | 0  | 0   | 0                                      | 0  | 0   | 0  |
| Cash Working Capital           | <u>0</u>   | <u>0</u>  | <u>0</u>                               | <u>0</u>   | <u>(2,206,749)</u>                            | <u>(2,206,749)</u>                             |
| Subtotal                       | 0  | 0   | 0                                      | 0  | (2,206,749)                                   | (2,206,749)                                    |
| Deduct:                        |  |   |  |  |   |  |
| Accumulated Depreciation       | (279,056)  | 0   | 0                                      | (17,086,448)                                     | 412,065                                       | (16,953,439)                                   |
| Customer Advances              | 0  | 0   | 0                                      | 0  | 0   | 0  |
| ADIT                           | (303,818)  | 0   | 0                                      | 0  | 0   | (303,818)                                      |
| SFAS 109 ADIT                  | 0  | 0   | 0                                      | 0  | 0   | 0  |
| Investment Tax Credit          | <u>0</u>   | <u>0</u>  | <u>0</u>                               | <u>0</u>   | <u>0</u>                                      | <u>0</u>                                       |
| Subtotal                       | (582,874)  | 0   | 0                                      | (17,086,448)                                     | 412,065                                       | (17,257,257)                                   |
| Net Adjustments                | <u>(137,083,256)</u>                             | <u>(4,706,912)</u>                                | <u>(7,408,501)</u>                     | <u>(1,050,999)</u>                               | <u>(2,618,814)</u>                            | <u>(152,868,482)</u>                           |

All amounts reflect the Kentucky jurisdictional balance.

The adjustments for the Post-1994 Environmental Surcharge, E.W. Brown Improvement Reimbursement, the SFAS No. 143, and the Green River retirements were provided by KU in its response to the Commission Staff's Third Data Request dated March 1, 2004, Item 38.

The Post-1994 Environmental Surcharge adjustment reflects the removal of all rate base-related components. The amounts shown above have been revised to include the ADIT associated with the Post-1994 Environmental Surcharge. When the corresponding adjustment is made to capitalization, the ADIT amount will not be included since ADIT is not funded by capitalization. This treatment is consistent with the Commission's decision in Case No. 1998-00474.

The Commission Expense Adjustments reflect the calculation of the cash working capital allowance using the 1/8<sup>th</sup> formula and the change in Operation and Maintenance Expenses and the adjustment to depreciation expense as described in the Order.

APPENDIX E

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2003-00434 DATED June 30, 2004

Determination of KU's Jurisdictional Capitalization

KU's Total Company Capitalization

|                                    | <u>Test Year<br/>Actual<br/>Balances</u> | <u>Updated<br/>Capital<br/>Structure</u> | <u>Revised<br/>TY Actual<br/>Balances</u> | <u>Adjustments to<br/>Total Company<br/>Capitalization</u> | <u>Adjusted<br/>Total Company<br/>Capitalization</u> |
|------------------------------------|--|--|---|--|--|
| Long-Term Debt                     | 613,712,167                              | 43.69%                                   | 729,956,465                               | (4,822,123)  | 725,134,342  |
| Short-Term Debt                    | 98,730,542                               | 2.41%                                    | 40,265,394                                | (265,995)  | 39,999,399   |
| Accounts Receivable Securitization | 49,300,000                               | 0.00%                                    | 0   | 0  | 0  |
| Preferred Stock                    | 40,000,000                               | 2.36%                                    | 39,430,013                                | (260,476)  | 39,169,537   |
| Common Equity                      | <u>869,020,543</u>                       | <u>51.54%</u>                            | <u>861,111,380</u>                        | <u>(4,169,442)</u>   | <u>856,941,938</u>                                   |
| Totals                             | <u>1,670,763,252</u>                     | <u>100.00%</u>                           | <u>1,670,763,252</u>                      | <u>(9,518,036)</u>   | <u>1,661,245,216</u>                                 |

Adjustments to Total Company Capitalization

|                 | <u>Undistributed<br/>Subsidiary<br/>Earnings</u> | <u>Investment in<br/>Electric<br/>Energy, Inc</u> | <u>Other<br/>Investments</u> | <u>Minimum<br/>Pension<br/>Liability</u> | <u>Adjustments to<br/>Total Company<br/>Capitalization</u> |
|-----------------|--|---|------------------------------|--|--|
| Long-Term Debt  | 0  | (4,473,454)                                       | (348,669)                    | 0  | (4,822,123)  |
| Short-Term Debt | 0  | (246,762)   | (19,233)                     | 0  | (265,995)  |
| Preferred Stock | 0  | (241,642)   | (18,834)                     | 0  | (260,476)  |
| Common Equity   | <u>(8,943,279)</u>                               | <u>(5,277,221)</u>                                | <u>(411,317)</u>             | <u>10,462,375</u>                        | <u>(4,169,442)</u>   |
| Totals          | <u>(8,943,279)</u>                               | <u>(10,239,079)</u>                               | <u>(798,053)</u>             | <u>10,462,375</u>                        | <u>(9,518,036)</u>   |

APPENDIX E (continued)

KU's Kentucky Jurisdictional Capitalization

|                 | <u>Adjusted<br/>Total Company<br/>Capitalization</u> | <u>Jurisdictional<br/>Rate Base<br/>Percentage</u> | <u>Kentucky<br/>Jurisdictional<br/>Capitalization</u> | <u>KY Juris.<br/>Capital<br/>Structure</u> | <u>Adjustments<br/>to KY Juris.<br/>Capitalization</u> | <u>Adjusted<br/>KY Juris.<br/>Capitalization</u> |
|-----------------|--|--|---|--|--|--|
| Long-Term Debt  | 725,134,342  | 87.14%   | 631,882,066   | 43.65%                                     | (65,716,597)   | 566,165,469                                      |
| Short-Term Debt | 39,999,399   | 87.14%   | 34,855,476  | 2.41%                                      | (3,628,339)  | 31,227,137                                       |
| Preferred Stock | 39,169,537   | 87.14%   | 34,132,335  | 2.36%                                      | (3,553,063)  | 30,579,272                                       |
| Common Equity   | <u>856,941,938</u>                                   | 87.14%   | <u>746,739,205</u>                                    | <u>51.58%</u>                              | <u>(77,655,487)</u>                                    | <u>669,083,718</u>                               |
| Totals          | <u>1,661,245,216</u>                                 |  | <u>1,447,609,082</u>                                  | <u>100.00%</u>                             | <u>(150,553,486)</u>                                   | <u>1,297,055,596</u>                             |

Adjustments to Kentucky Jurisdictional Capitalization

|                 | <u>KY Juris.<br/>Capital<br/>Structure</u> | <u>Post-1994<br/>Environ.<br/>Surcharge</u> | <u>E. W.<br/>Brown<br/>Repairs</u> | <u>Retire<br/>Green River<br/>Units 1 &amp; 2</u> | <u>SFAS<br/>No. 143<br/>ARO</u> | <u>Adjustments<br/>to KY Juris.<br/>Capitalization</u> |
|-----------------|--|---|------------------------------------|---|---------------------------------|--|
| Long-Term Debt  | 43.65%                                     | (59,969,458)                                | (2,054,567)                        | (458,761)   | (3,233,811)                     | (65,716,597)   |
| Short-Term Debt | 2.41%                                      | (3,311,028)                                 | (113,437)                          | (25,329)  | (178,545)                       | (3,628,339)  |
| Preferred Stock | 2.36%                                      | (3,242,335)                                 | (111,083)                          | (24,804)  | (174,841)                       | (3,553,063)  |
| Common Equity   | <u>51.58%</u>                              | <u>(70,864,252)</u>                         | <u>(2,427,826)</u>                 | <u>(542,105)</u>                                  | <u>(3,821,304)</u>              | <u>(77,655,487)</u>                                    |
| Totals          | <u>100.00%</u>                             | <u>(137,387,073)</u>                        | <u>(4,706,913)</u>                 | <u>(1,050,999)</u>                                | <u>(7,408,501)</u>              | <u>(150,553,486)</u>                                   |

Adjustments to Total Company Capitalization:

The Updated Capital Structure percentages were used to allocate adjustments to Total Company Capitalization on a pro rata basis. The Undistributed Subsidiary Earnings and Minimum Pension Liability impact only the Common Equity, so a pro rata allocation to all components of Total Company Capitalization is not appropriate.

Adjustments to Kentucky Jurisdictional Capitalization:

As noted in Appendix C, the adjustment for the Post-1994 Environmental Surcharge does not include the balance for ADIT, since ADIT is not funded by capitalization.

## APPENDIX F

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00434 DATED June 30, 2004

#### Schedule of Adjustments

The following adjustments were proposed by KU in its application, accepted by the AG, and have been found reasonable and accepted by the Commission. The "+" indicates an increase while "-" indicates a decrease.

| <u>Description</u>   | <u>Reference<br/>Rives Exhibit 1</u> | <u>Change to<br/>Revenues</u> | <u>Change to<br/>Expenses</u> |
|--|--------------------------------------|-------------------------------|-------------------------------|
| 1. Adjustment to eliminate unbilled revenues.  | Sch. 1.00                            | +\$675,000                    | 0                             |
| 2. Adjust base rates and Fuel Adjustment Clause ("FAC") to reflect a full year of FAC roll-in. | Sch. 1.02                            | +\$1,417,623                  | 0                             |
| 3. Adjustment to eliminate environmental surcharge revenues and expenses.                      | Sch. 1.03                            | -\$25,039,979                 | -\$248,468                    |
| 4. Adjust base rate revenues to reflect a full year of the environmental surcharge roll-in.    | Sch. 1.04                            | +\$17,986,813                 | 0                             |
| 5. Eliminate electric brokered sales revenues and expenses.                                    | Sch. 1.06                            | -\$5,571,256                  | -\$7,725,329                  |
| 6. Eliminate electric ESM revenues collected.  | Sch. 1.07                            | -\$4,604,742                  | 0                             |
| 7. Eliminate ESM, environmental surcharge, and FAC in Rate Refund Account 449.                 | Sch. 1.08                            | +\$1,630,147                  | 0                             |
| 8. Eliminate demand-side management revenues and expenses.                                     | Sch. 1.09                            | -\$2,942,935                  | -\$2,946,471                  |
| 9. Eliminate advertising expenses pursuant to 807 KAR 5:016.                                   | Sch. 1.15                            | 0                             | -\$45,386                     |
| 10. Adjustment to remove One-Utility costs.  | Sch. 1.18                            | 0                             | -\$1,550,907                  |
| 11. Adjustment for VDT net savings to shareholders.  | Sch. 1.20                            | 0                             | +\$2,895,000                  |

APPENDIX F (continued)

| <u>Description</u>   | <u>Reference<br/>Rives Exhibit 1</u> | <u>Change to<br/>Revenues</u> | <u>Change to<br/>Expenses</u> |
|--|--------------------------------------|-------------------------------|-------------------------------|
| 12. Adjust VDT-related revenues and expenses to settlement agreement.  | Sch. 1.21                            | +\$85,337                     | -\$466,280                    |
| 13. Adjustment for merger savings.   | Sch. 1.22                            | -\$2,564,269                  | +\$18,968,825                 |
| 14. Adjustment to eliminate LG&E/KU merger amortization expense.   | Sch. 1.23                            | 0                             | -\$2,726,510                  |
| 15. Adjustment for MISO Schedule 10 credits.   | Sch. 1.24                            | 0                             | +\$843,344                    |
| 16. Adjust for cumulative effect of accounting change.<br>[AG withdrew objection to adjustment; AG Post-Hearing Brief at 17] | Sch. 1.25                            | 0                             | +\$8,434,618                  |
| 17. Adjustment to remove E. W. Brown legal expenses.   | Sch. 1.27                            | 0                             | -\$3,126,995                  |
| 18. Adjust for customer rate switching.  | Sch. 1.28                            | -\$1,898,980                  | 0                             |
| 19. Adjustment for sales tax refunds.  | Sch. 1.29                            | 0                             | +\$120,391                    |
| 20. Adjustment for 1992 management audit fees.   | Sch. 1.32                            | 0                             | +\$163,982                    |
| 21. Adjust for prior income tax true-ups and adjustments.  | Sch. 1.36                            | 0                             | +\$681,889                    |



APPENDIX F (continued)

The following adjustments were proposed in the application and later revised by KU, accepted by the AG, and have been found reasonable and accepted by the Commission. The “+” indicates an increase while “-” indicates a decrease.

| <u>Description</u>  | <u>Revision Reference</u> | <u>Change to Revenues</u> | <u>Change to Expenses</u> |
|---|---------------------------|---------------------------|---------------------------|
| 1. Adjust mismatch in fuel cost recovery.<br>[Rives Ex. 1, Sch. 1.01]   | Seelye<br>Rebuttal Ex. 2  | -\$35,887,728             | -\$28,474,767             |
| 2. Adjust off-system sales revenues for the environmental surcharge calculations.<br>[Rives Ex. 1, Sch. 1.05] | Seelye<br>Rebuttal Ex. 2  | -\$2,266,829              | 0                         |
| 3. Adjustment to reflect amortization of ESM audit expenses.<br>[Rives Ex. 1, Sch. 1.17]                      | Scott<br>Rebuttal Ex. 5   | 0                         | +\$63,933                 |