

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

LOUISVILLE GAS AND ELECTRIC COMPANY'S	)	
ANNUAL EARNINGS SHARING MECHANISM	)	CASE NO.
FILING FOR CALENDAR YEAR 2003	)	2004-00069

O R D E R

On March 1, 2004, Louisville Gas and Electric Company ("LG&E") filed its fourth annual Earnings Sharing Mechanism ("ESM") calculations. This current ESM filing reflects LG&E's financial results for calendar year 2003. LG&E determined that its earned return on common equity for calendar year 2003 was 7.63 percent,<sup>1</sup> which is below the lower limit of the deadband in the ESM mechanism. Based on its earnings for calendar year 2003, LG&E calculated that it was entitled to collect \$13,027,688 from ratepayers under the terms of its ESM tariff. In addition, LG&E filed calculations on April 23, 2004 supporting a balancing adjustment of \$410,117 to be collected from ratepayers due to an under-collection of its ESM for calendar year 2002 earnings.<sup>2</sup> The total of these two amounts, \$13,437,805, will be collected during the period April 2004

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<sup>1</sup> Annual ESM Filing for calendar year 2003, filed March 1, 2004, Form 1c.

<sup>2</sup> See Annual Earnings Sharing Mechanism Balancing Adjustment, Form 1a, filed April 23, 2004.

through March 2005. LG&E began collecting the \$13,437,805 through a monthly ESM factor applied to electric bills rendered on and after April 1, 2004.<sup>3</sup>

On April 1, 2004, the Commission issued an Order establishing a procedural schedule that provided for two rounds of data requests. On May 12, 2004, a unanimous settlement agreement ("ESM Settlement") was filed in LG&E's rate case, Case No. 2003-00433,<sup>4</sup> that provided for the orderly termination of LG&E's ESM tariff. The ESM Settlement recommended that the 2003 ESM factors determined in this case be approved as filed and that LG&E be authorized to bill those factors through March 31, 2005. The ESM Settlement also provided that no later than May 2005 there would be a final balancing adjustment to reconcile any over- or under-collection of the 2003 ESM revenues as billed from April 2004 through March 2005.<sup>5</sup> The Commission approved the ESM Settlement on June 30, 2004.

Based on the terms of the ESM Settlement, which were approved in Case No. 2003-00433, the Commission finds that LG&E's 2003 ESM factors as filed in this proceeding are reasonable and should be approved for billing from April 1, 2004

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<sup>3</sup> The ESM Factor shown in the March 1, 2004 filing was 2.282 percent. This factor was applied to customer bills for 1 month. The April 23, 2004 filing, which reflected the impact of the balancing adjustment from the 2002 ESM calculations, resulted in a new ESM Factor of 2.360 percent. See Annual ESM Filing for calendar year 2003, filed March 1, 2004, Form 1; and Annual Earnings Sharing Mechanism Balancing Adjustment filed April 23, 2004, Form 1a.

<sup>4</sup> Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company, final Order dated June 30, 2004.

<sup>5</sup> Id., June 30, 2004 Order at 5-7.

through March 31, 2005. Further, LG&E should calculate the final balancing adjustment as provided in the terms of the ESM Settlement.

IT IS THEREFORE ORDERED that LG&E's ESM factors for calendar year 2003 are approved, in accordance with the terms of the ESM Settlement approved in the June 30, 2004 Order in Case No. 2003-00433.

Done at Frankfort, Kentucky, this 24<sup>th</sup> day of August, 2004.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above a solid horizontal line.

Executive Director