

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY UTILITIES COMPANY'S ANNUAL	)	
EARNINGS SHARING MECHANISM FILING FOR	)	CASE NO.
CALENDAR YEAR 2003	)	2004-00070

O R D E R

On March 1, 2004, Kentucky Utilities Company ("KU") filed its fourth annual Earnings Sharing Mechanism ("ESM") calculations. This current ESM filing reflects KU's financial results for calendar year 2003. KU determined that its earned return on common equity for calendar year 2003 was 6.94 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, KU calculated that it was entitled to collect \$16,232,669 from ratepayers under the terms of its ESM tariff. In addition, KU filed calculations on April 23, 2004 supporting a balancing adjustment of \$236,235 to be returned to ratepayers due to an over-collection of its ESM for calendar year 2002 earnings. The total of these two amounts, \$15,996,434, will be collected during the period April 2004 through March 2005.<sup>2</sup> KU

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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.

began collecting the \$15,996,434 through a monthly ESM factor applied to 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 KU’s rate case, Case No. 2003-00434,<sup>4</sup> that provided for the orderly termination of KU’s ESM tariff. The ESM Settlement recommended that the 2003 ESM factors determined in this case be approved as filed and that KU 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. 2003-00434, the Commission finds that KU’s 2003 ESM factors as filed in this proceeding are reasonable and should be approved for billing from April 1, 2004 through March 31, 2005. Further, KU should calculate the final balancing adjustment as provided in the terms of the ESM Settlement.

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<sup>3</sup> The ESM Factor shown in the March 1, 2004 filing was 2.367 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 2.330 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. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company, final Order dated June 30, 2004.

<sup>5</sup> Id., June 30, 2004 Order at 4-6.

IT IS THEREFORE ORDERED that KU'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. 2003-00434.

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 horizontal line.

Executive Director