

**ESM**  
**Earnings Sharing Mechanism**

**APPLICABLE**

In all territory served.

**AVAILABILITY OF SERVICE**

To all electric rate schedules, excluding the Riders for Curtailable Service.

**RATE**

The monthly billing amount computed under each of the rate schedules to which this mechanism is applicable, the associated Fuel Adjustment Clause billing, the associated Environmental Surcharge billing, and the associated Merger Surcredit Rider billing shall be adjusted by a percentage factor which shall be calculated in accordance with the following formula:

$$\text{Earning Sharing Mechanism Factor ESMF} = (\text{RA} + \text{BA}) / \text{AR} \%$$

**Where:**

(RA) is the Revenue Adjustment from the Current Reporting Period.

(BA) is the Balancing Adjustment which reconciles any over- or under-provision of the RA from the Prior Adjustment Year.

(AR) is the Actual Revenue for Current Reporting Year.

**DEFINITIONS:**

- (1) Current Reporting Period shall be a calendar year.
- (2) Prior Reporting Period shall be the calendar year immediately preceding the Current Reporting Period.
- (3) Current Adjustment Year shall be the twelve months beginning with the first April billing cycle following the Current Reporting Period.
- (4) Prior Adjustment Year shall be the twelve months ending on the last March billing cycle following the Current Reporting Period.

**TERMS AND CONDITIONS**

- (1) The operation and calculations associated with the Earnings Sharing Mechanism shall be pursuant to the Commission's Orders in P.S.C. Case Nos. 98-426 and 2001-054.
- (2) An Earnings Sharing Mechanism Report will be filed on the 1st of March following a Current Reporting Period. The first Current Reporting Period subject to this tariff shall be the calendar year 2000.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE  
7/1/2004  
PURSUANT TO 807 KAR 5:011  
SECTION 9 (1)

C  
6/30/05

Date of Issue: July 20, 2004

Issued By

Date Effective: June 1, 2000

*[Signature]*  
Michael S. Beer, Vice President  
Louisville, Kentucky

By *[Signature]*  
Executive Director

**ESM**

**Earnings Sharing Mechanism**

- (3) The Earnings Sharing Mechanism Report's determination of the return on equity will
  - a) exclude all revenues and expenses associated with the Fuel Adjustment Clause and the Environmental Surcharge,
  - b) contain a threshold of 11.5% return on equity with a symmetrical deadband of 100 basis points above and below the threshold, and
  - c) share any revenue surplus or deficit outside of the deadband, 60% LG&E and 40% ratepayers.
  
- (4) The Earnings Sharing Mechanism Report will contain
  - a) the calculation of the adjusted revenues, expenses and net operating income. These calculations will recognize the effect of the Commission's final order in Case Nos. 98-426, 2001-054, and 2002-00071. Revenues will be adjusted for off-system sales. Filings would recognize adjustments to reflect the shareholders' portion of LG&E' s merger savings and the elimination of advertising expenses pursuant to KAR 807 5:016.
  - b) the calculation of the adjusted capitalization, capital structure, and the cost rates for debt and preferred stock.
  - c) the calculation of the rate of return on common equity reflecting the adjusted net operating income, the adjusted capitalization, adjusted capital structure, and the Current Reporting Period cost rates for debt and preferred stock.
  - d) the calculation of the revenue requirement for the Current Reporting Period based on the upper and lower points of the deadband. This calculation will reflect the adjusted financial data described above.
  - e) a comparison of the adjusted net operating income to the upper and lower point revenue requirements, a calculation of the amount of sharing with or collection from (Revenue Adjustment) ratepayers, and a determination of the Earnings Sharing Mechanism Factor to be applied to ratepayers' bills. The Revenue Adjustment used to compute the Earning Sharing Mechanism Factor will be applied in the first April billing cycle following the Current Reporting Period, if applicable.
  
- (5) The Balancing Adjustment will be used to compute the Earning Sharing Mechanism Factor to be applied in the second through twelfth months of the Current Adjustment Year. This calculation will be filed ten days prior to the first billing cycle of the second month of the Current Adjustment Year.
  
- (6) This schedule will be subject to Commission audit at the beginning of the third Current Reporting Period, 2002, and is effective for the Current Reporting Period 2003. Should the Commission order the Earning Sharing Mechanism cease to be effective, the Earning Sharing Mechanism will be withdrawn with completion of application of a final Balancing Adjustment.

PUBLIC SERVICE COMMISSION  
 OF KENTUCKY  
 EFFECTIVE  
 7/1/2004  
 PURSUANT TO 807 KAR 5:011  
 SECTION 9 (1)

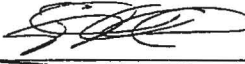
C  
6/30/05

Date of Issue: July 20, 2004

Issued By

Date Effective: December 28, 2002  
July 20, 2004

  
 Michael S. Beer, Vice President  
 Louisville, Kentucky

  
 Executive Director

Issued By Authority of an Order of the KPSC in Case No. 2003-00433 dated June 30, 2004