

TARIFF E.S.
(Environmental Surcharge)

APPLICABLE

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., S.G.S., M.G.S., M.G.S.-T.O.D., L.G.S., Q.P., C.I.P.-T.O.D., C.S.-I.R.P., M.W., O.L., and S.L.

RATE.

1. The environmental surcharge shall provide for monthly adjustments based on a percent of revenues equal to the difference between the environmental compliance costs in the base period as provided in Paragraph 6 below and in the current period according to the following formula:

$$\text{Monthly Environmental Surcharge Factor} = \frac{\text{Net KY Retail E(m)}}{\text{KY Retail R(m)}}$$

Where:

Net KY Retail E(m) = Monthly E(m) allocated to Kentucky Retail Customers, net of Over/ (Under) Recovery Adjustment; Allocation based on Percentage of Kentucky Retail Revenues to Total Company Revenues in the Expense Month.

(For purposes of this formula, Total Company Revenues do not include Non-Physical Revenues.)

KY Retail R(m) = Kentucky Retail Revenues for the Expense Month.

2. Monthly Environmental Surcharge Gross Revenue Requirement, E(m)

$$E(m) = \text{CRR} - \text{BRR}$$

Where:

CRR = Current Period Revenue Requirement for the Expense Month.

BRR = Base Period Revenue Requirement.

3. Base Period Revenue Requirement, BRR

BRR = The Following Monthly Amounts:

Billing Month	Base Net Environmental Costs
JANUARY	\$ 2,531,784
FEBRUARY	3,003,995
MARCH	2,845,066
APRIL	2,095,535
MAY	1,514,859
JUNE	1,913,578
JULY	2,818,212
AUGUST	2,342,883
SEPTEMBER	2,852,305
OCTOBER	2,181,975
NOVEMBER	2,598,522
DECEMBER	1,407,969
	<u>\$28,106,589</u>

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1/24/2007

(Continued on Sheet 29-2)

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
3/30/2006

PURSUANT TO 807 KAR 5:011

SECTION 9 (1)

DATE EFFECTIVE Service rendered on and after March 30, 2006

DATE OF ISSUE March 20, 2006

ISSUED BY E.K. Wagner DIRECTOR OF REGULATORY SERVICES
 NAME TITLE

By [Signature] JCKY
 Executive Director

TARIFF E.S. (Cont'd)
(Environmental Surcharge)

RATE (Cont'd)

4. Current Period Revenue Requirement, CRR

$$CRR = [((RB_{KP(C)}) (ROR_{KP(C)}) / 12) + OE_{KP(C)} + (((RB_{IM(C)}) (ROR_{IM(C)}) / 12) + OE_{IM(C)}) (.15) - AS]$$

Where:

- $RB_{KP(C)}$ = Environmental Compliance Rate Base for Big Sandy.
- $ROR_{KP(C)}$ = Annual Rate of Return on Big Sandy Rate Base;
Annual Rate divided by 12 to restate to a Monthly Rate of Return.
- $OE_{KP(C)}$ = Monthly Pollution Control Operating Expenses for Big Sandy.
- $RB_{IM(C)}$ = Environmental Compliance Rate Base for Rockport.
- $ROR_{IM(C)}$ = Annual Rate of Return on Rockport Rate Base;
Annual Rate divided by 12 to restate to a Monthly Rate of Return.
- $OE_{IM(C)}$ = Monthly Pollution Control Operating Expenses for Rockport.
- AS = Net proceeds from the sale of SO₂ emission allowances, ERCs, and NOx emission allowances, reflected in the month of receipt. The SO₂ allowance sales can be from either EPA Auctions or the AEP Interim Allowance Agreement Allocations.

"KP(C)" identifies components from the Big Sandy Units – Current Period, and "IM(C)" identifies components from the Indiana Michigan Power Company's Rockport Units – Current Period.

The Rate Base for both Kentucky Power and Rockport should reflect the current costs associated with the 1997 Plan and the 2003 Plan. The Rate Base for Kentucky Power should also include a cash working capital allowance based on the 1/8 formula approach, due to the inclusion of Kentucky Power's accounts receivable financing in the capital structure and weighted average cost of capital. The Operating Expenses for both Kentucky Power and Rockport should reflect the current operating expenses associated with the 1997 Plan, the 2003 Plan and the 2005 Plan.

The Rate of Return for Kentucky Power is the weighted average cost of capital as authorized by the Commission in Case No. 2005-00341.

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1/24/2007

(Cont'd on Sheet 29-3)

**PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
3/30/2006**

PURSUANT TO 807 KAR 5:011

DATE OF ISSUE March 20, 2006 DATE EFFECTIVE Service rendered on and after March 20, 2006

ISSUED BY E.K. Wagner DIRECTOR OF REGULATORY SERVICES FRANKFORT, KENTUCKY
NAME TITLE

By [Signature] IS

Issued by authority of an Order of the Public Service Commission in Case No. 2005-00341 Executive Director