ECR
Environmental Cost Recovery Surcharge

APPLICABLE
In all territory served.

AVAILABILITY OF SERVICE
To all electric rate schedules

RATE
The monthly billing amount under each of the schedules to which this mechanism is applicable, including the fuel adjustment clause, demand-side management cost recovery mechanism and STOD program cost recovery factor, shall be increased or decreased by a percentage factor calculated in accordance with the following formula. T T

$$CESF = E(m) / R(m) \qquad MESF = CESF - BESF$$

MESF = Monthly Environmental Surcharge Factor
CESF = Current Environmental Surcharge Factor
BESF = Base Environmental Surcharge Factor

Where E(m) is the jurisdictional total of each approved environmental compliance plan revenue requirement of environmental compliance costs for the current expense month and R(m) is the revenue for the current expense month as set forth below.

CANCELLED
FEB 06 2009
KENTUCKY PUBLIC SERVICE COMMISSION

DEFINITIONS

1) For all Plans, E(m) = [(RB/12) (ROR + (ROR – DR) (TR / (1 – TR))] + OE - BAS T
   Where:
   a) RB is the Total Environmental Compliance Rate Base. T
   b) ROR is the Rate of Return on Environmental Compliance Rate Base, designated as the overall all rate of return [cost of short-term debt, long-term debt, preferred stock, and common equity]. T
   c) DR is the Debt Rate [cost of short-term debt, and long-term debt]. T
   d) TR is the Composite Federal and State Income Tax Rate. T
   e) OE is the Operating Expenses [Depreciation and Amortization Expense, Property Taxes, Insurance Expense; adjusted for the Average Month Expense already included in existing rates]. Includes operation and maintenance expense recovery authorized by the K.P.S.C. in Case Nos. 2000-386, 2002-147, 2004-00421 and 2006-00208. T T
   f) BAS is the total proceeds from by-product and allowance sales T

2) Total E(m) (sum of each approved environmental compliance plan revenue requirement) is multiplied by the Jurisdictional Allocation Factor to arrive at the Net Jurisdictional E(m).

3) The revenue R(m) is the average monthly base revenue for the Company for the 12 months ending with the current expense month. Base revenue includes the customer, energy and demand charge for each schedule to which this mechanism is applicable and automatic adjustment clause revenues for the Fuel Adjustment Clause, the Demand-Side Management Cost Recovery Mechanism and STOD Program Cost Recovery Factor applicable for each rate schedule. T T T T T T

4) Current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
12/21/2006
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
Executive Director