

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 3 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:

| <u>Billing Month</u> | <u>Base Net Environmental Costs</u> |
|----------------------|-------------------------------------|
| 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 | 2,342,833 |
| SEPTEMBER | 2,852,305 |
| OCTOBER | 2,181,975 |
| NOVEMBER | 2,598,522 |
| DECEMBER | 1,407,969 |

\$28,106,683

CANCELLED
JUN 29 2010
 KENTUCKY PUBLIC SERVICE COMMISSION

PUBLIC SERVICE COMMISSION
 OF KENTUCKY
 EFFECTIVE
 1/24/2007
 PURSUANT TO 807 KAR 5:011
 SECTION 9(1)
 2007

(Continued on Sheet 29-2)

DATE OF ISSUE January 29, 2007

DATE EFFECTIVE Service rendered on and after January 24, 2007

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

By [Signature] KY
 Executive Director

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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, the 2005 Plan and the 2007 Plan.

The Rate of Return for Kentucky Power is 10.5% rate of return on equity as authorized by the Commission in its March 14, 2006 Order in Case No. 2005-00341 at page 12.

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(Cont'd on Sheet 29-3)

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SECTION 9 (1)

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 BY [Signature] Executive Director

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

RATE (Cont'd)

The Rate of Return for Rockport should reflect the requirements of the Rockport Unit Power Agreement.

Net Proceeds from the sale of emission allowances and ERCs that reflect net gains will be a reduction to the Current Period Revenue Requirement, while net losses will be an increase.

The Current Period Revenue Requirement will reflect the balances and expenses as of the Expense Month of the filing.

5. Environmental costs "E" shall be the Company's costs of compliance with the Clean Air Act and those environmental requirements that apply to coal combustion wastes and by-products, as follows:

- (a) cost associated with Continuous Emission Monitors (CEMS)
- (b) costs associated with the terms of the Rockport Unit Power Agreement
- (c) the Company's share of the pool capacity costs associated with Gavin scrubber(s)
- (d) return on SO₂ allowance inventory
- (e) costs associated with air emission fees
- (f) over/under recovery balances between the actual costs incurred less the amount collected through the environmental surcharge
- (g) costs associated with any Commission's consultant approved by the Commission
- (h) costs associated with Low Nitrogen Oxide (NO_x) burners at the Big Sandy Generating Plant
- (i) costs associated with the consumption of SO₂ allowances
- (j) costs associated with the Selective Catalytic Reduction (SCR) at the Big Sandy Generating Plant
- (k) costs associated with the upgrade of the precipitator at the Big Sandy Generating Plant
- (l) costs associated with the over-fire air with water injection at the Big Sandy Generating Plant
- (m) costs associated with the consumption of NO_x allowances
- (n) return on NO_x allowance inventory
- (o) 25% of the costs associated with the Reverse Osmosis Water System (the amount is subject to adjustment at subsequent 6 month surcharge reviews based on the documented utilization of the RO Water System by the SCR)
- (p) costs associated with operating approved pollution control equipment

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(Cont'd on Sheet 29-4)

DATE OF ISSUE March 20, 2006 DATE EFFECTIVE Service rendered on and after March 30, 2006
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By [Signature]

Issued by authority of an order of the Public Service Commission in Case No. 2005-0031 filed March 17, 2006

TARIFF E.S. (Cont'd)
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- (q) costs associated with maintaining approved pollution control equipment including material and contract labor (excluding plant labor)
- (r) the Company's share of the pool Capacity costs associated with the following:
 - Amos Unit No. 3 CEMS, Low NO_x Burners, SCR, FGD, Landfill, Coal Blending Facilities and SO₃ Mitigation
 - Cardinal Unit No 1 CEMS, Low NO_x Burners, SCR, Catalyst Replacement, FGD, Landfill and SO₃ Mitigation
 - Gavin Plant SCR and SCR Catalyst Replacement
 - Gavin Unit No 1 and 2 Low NO_x Burners and SO₃ Mitigation
 - Kammer Unit Nos 1, 2 and 3 CEMS, Over Fire Air and Duct Modification
 - Mitchell Unit Nos 1 and 2 Water Injection, Low NO_x burners, Low NO_x burner Modification, SCR, FGD, Landfill, Coal Blending Facilities and SO₃ Mitigation
 - Mitchell Plant Common CEMS, Replace Burner Barrier Valves and Gypsum Material Handling Facilities
 - Muskingum River Unit No 1 Low NO_x Ductwork, Over Fire Air , Over Fire Air Modification, Water Injection and Water Injection Modification
 - Muskingum River Unit No 2 Low NO_x Ductwork, Over Fire Air, Over Fire Air Modification and Water Injection
 - Muskingum River Unit No 3 Over Fire Air, Over Fire Air Modification with NO_x Instrumentation
 - Muskingum River Unit No 4 Over Fire Air with Modification
 - Muskingum River Unit No 5 Low NO_x Burner with Modification and Weld Overlay, an SCR and SO₃ Mitigation
 - Muskingum River Common CEMS
 - Phillip Sporn Unit No 2 Low NO_x Burners with Modifications
 - Phillip Sporn Unit No 4 and 5 Low NO_x Burners and Modulating Injection Air system with Modifications
 - Phillip Sporn Common CEMS, SO₃ Injection System and Landfill
 - Rockport Unit No 1 and 2 Low NO_x Burners and Landfill

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(Cont'd on Sheet 29-5)

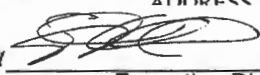
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Executive Director

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

- Tanners Creek Unit No 1 Low NO_x Burners, with Modifications and Low NO_x Burners Leg Replacement
- Tanners Creek Unit No 2 and 3 Low NO_x Burners with Modifications
- Tanners Creek Unit No 4 Over Fire Air, Low NO_x Burners and ESP Controls Upgrade
- Tanners Creek Common CEMS and Coal Blending Facilities
- Title V Air Emission Fees at Amos, Cardinal, Gavin, Kammer, Mitchell, Muskingum River, Phillip Sporn, Rockport and Tanners Creek plants.

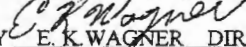
6. The monthly environmental surcharge shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all necessary supporting data to justify the amount of the adjustments which shall include data and information as may be required by the Commission.

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FRANKFORT, KENTUCKY
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Executive Director

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