SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 23rd day of December, 2002, by and between Louisville Gas and Electric Company ("LG&E"); Kentucky Utilities Company ("KU"); Commonwealth of Kentucky, ex. rel. A.B. Chandler, III, Attorney General, by and through the Utility and Rate Intervention Division ("AG"); Lexington-Fayette Urban County Government ("LFUCG"); and the Kentucky Industrial Utility Customers Inc. ("KIUC") and the interests of its participating members as represented by and through the KIUC in the proceedings involving LG&E and KU that are the subject of this Settlement Agreement.

WITNESSETH:

WHEREAS, LG&E filed on March 1, 2002 with the Kentucky Public Service Commission ("Commission") its Annual Earnings Sharing Mechanism ("ESM") Filing for 2001 in accordance with the Commission's Order in Case No. 98-426 and the Commission has established Case No. 2002-00071 to review LG&E's ESM Filing for 2001;

WHEREAS, LG&E's ESM calculations determined that its rate of return on common equity was below the deadband for calendar year 2001 and began collecting from ratepayers additional revenues through a monthly ESM factor applied to bills for the period beginning April 1, 2002 and ending March 31, 2003;

WHEREAS, KU filed on March 1, 2002 with the Commission its Annual Earnings Sharing Mechanism Filing for 2001 in accordance with the Commission's Order in Case No. 98-474 and the Commission has established Case No. 2002-00072 to review KU's ESM Filing for 2001;

WHEREAS, KU's ESM calculations determined that its rate of return on common equity was within the deadband for calendar year 2001 and KU would not collect or return to ratepayers any revenues through its ESM factor;

WHEREAS, the AG and the KIUC have been granted intervention by the Commission in both of the forgoing proceedings and LFUCG has been granted intervention by the Commission in Case No. 2002-00072;

WHEREAS, on October 16, 2002, the Commission entered a Final Order in Case No. 2002-00071 determining that LG&E's ESM calculations erroneously included unauthorized adjustments that reduced its return on common equity below the deadband. The Commission ordered LG&E to refile its calendar year 2001 ESM calculations to reflect the exclusion of the unauthorized adjustments within 10 days of the date of the Final Order and to file ESM calculations that would refund to its ratepayers through an ESM factor any amounts collected since April 1, 2002;

WHEREAS, on October 16, 2002, the Commission entered a Final Order in Case No. 2002-00072 determining that KU's ESM calculations erroneously included unauthorized adjustments that reduced its return on common equity to within the deadband. The Commission ordered KU, within 10 days of the date of the Final Order, to refile its calendar year 2001 ESM calculations to reflect the exclusion of the unauthorized adjustments and to file ESM calculations that would distribute to its ratepayers any amounts that exceeded the deadband through an ESM factor applied to the months remaining between the first billing cycle after the date of the Final Order and the end of March 2003;

WHEREAS, on November 4, 2002, KIUC filed a petition for rehearing of the Commission's Final Orders in Case Nos. 2002-00071 and 2002-00072;

WHEREAS, on November 6, 2002, LG&E and KU filed a joint petition for rehearing of the Commission's Final Orders in Case Nos. 2002-00071 and 2002-00072;

WHEREAS, on November 25, 2002, the Commission issued an Order granting LG&E and KU's joint petition for rehearing and KIUC's petition for rehearing;

WHEREAS, negotiations to settle the pending proceedings before the Commission took place with representatives of the AG, KIUC and the Commission Staff on December 6 of 2002 at the offices of the Commission. During the course of this conference and subsequent consultations with LFUCG, the parties reached an unanimous settlement of all issues in the forgoing proceedings; and

WHEREAS, the signatories to this Settlement Agreement desire to settle all issues pending before the Commission in Case Nos. 2002-00071 and 2002-00072.

NOW, THEREFORE, for and in consideration of the premises and conditions set forth herein, the parties hereby agree as follows:

ARTICLE 1.0 Negotiated Settlement Amount

SECTION 1.1 The "Refund Period" shall be the five month period beginning November 1, 2002 and ending March 31, 2003.

SECTION 1.2 LG&E shall refund to its ratepayers a total amount of $440,557 over the Refund Period as a fair and reasonable compromise to all issues contained in Case No. 2002-00071 before the Commission relating to the application of LG&E's ESM. In accordance with the Commission's Order dated October 16, 2002, LG&E has refunded certain

amounts for the month of November 2002 and is currently refunding certain amounts for the month of December 2002 through the operation of the ESM tariff. These amounts refunded during November and December 2002 shall be credited to and thereby reduce the amount that LG&E is to refund to its ratepayers under this Settlement Agreement. The remaining amount shall be refunded to LG&E ratepayers utilizing an ESM factor of -0.174 percent to be applied to customer's bills beginning with the first billing cycle in January 2003 through the end of March 2003 and subject to a balancing adjustment in accordance with the ESM tariff. The calculation of the $440,557 value and the ESM factor of -0.174 percent are shown on Exhibit One to this Settlement Agreement.

SECTION 1.3 KU shall credit to its ratepayers a total amount of $1,023,407 during the Refund Period as a fair and reasonable compromise to all issues contained Case No. 2002-00072 before the Commission relating to the application of its ESM. In accordance with the Commission's Order dated October 16, 2002, KU has distributed certain amounts through its ESM factor for the month of November 2002 and is currently distributing certain amounts through its ESM factor for the month of December 2002. These amounts distributed during November and December of 2002 shall be credited to and thereby reduce the amount that KU is to further distribute to its ratepayers under this Settlement Agreement. The remaining amount shall be distributed to KU ratepayers utilizing an ESM factor of -0.315 percent to be applied to customer's bills beginning with the first billing cycle in January 2003 though the end of March 2003 and subject to a balancing adjustment in accordance with the ESM tariff. The calculation of the $1,023,407 value and the ESM factor of -0.315 percent are shown on Exhibit Two to this Settlement Agreement.

SECTION 1.4 LG&E and KU shall not be required to pay interest on any revenues that have been identified for refund or distribution through the ESM in Case Nos. 2002-00071 and 2002-00072 or by virtue of this Settlement Agreement.

ARTICLE 2.0 Accounting for the month of December, 2001.

LG&E and KU shall use their actual per books capitalization for the month of December 2001 and previously approved adjustments in the determination of the thirteen-month average capitalization for the period December 2001 through December 2002 in calculating their ESM filings for 2002.

ARTICLE 3.0 Approval of Settlement Agreement

SECTION 3.1 Request for Approval by the Commission

Following the execution of this Settlement Agreement, the signatories shall cause the Settlement Agreement to be filed with the Commission with a request to the Commission for consideration and approval of this Settlement Agreement as soon as reasonably possible.

SECTION 3.2 Recommendation for Approval to the Commission

The signatories to this Settlement Agreement shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.

SECTION 3.3 Approval of Settlement Agreement in its Entirety

If the Commission issues a final order which accepts and approves this Settlement Agreement in its entirety, then: (a) the signatories hereby waive their rights under KRS 278.400 to file an application for rehearing and their rights under KRS 278.410 to file a complaint in the Franklin Circuit Court regarding such order of the Commission; and (b) any and all claims or

demands, asserted or unasserted, directly arising out of or in connection with the proceedings referenced in this Settlement Agreement shall be deemed compromised and settled under this Settlement Agreement and released and discharged by this Settlement Agreement.

SECTION 3.4 No Approval of Settlement Agreement in its Entirety

If the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the parties hereto from further consideration by the Commission and none of the parties shall be bound by any of the provisions herein; and (b) neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories.

SECTION 3.5 Status Quo

Should the Settlement Agreement be voided or vacated for any reason after any implementation of the terms of the Settlement Agreement has been made, then the parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this agreement.

ARTICLE 4.0 Additional Provisions

SECTION 4.1

This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

SECTION 4.2

This Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors and assigns.

SECTION 4.3

This Settlement Agreement constitutes the complete agreement and understanding among the parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

SECTION 4.4

For the purpose of this Settlement Agreement only, the rate adjustments are based upon the independent analysis of the parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and negotiation. Notwithstanding anything contained in the Settlement Agreement, the parties recognize and agree that the effects, if any, of any future events upon the cost of service of LG&E or KU are unknown, and this Settlement Agreement shall be implemented as written. Neither the Settlement Agreement nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the settlement rates and adjustments set forth herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precendential value in this or any other jurisdiction.

SECTION 4.5

Making this agreement shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid.

SECTION 4.6

The signatories hereto warrant that they have informed, advised, and consulted with the respective parties hereto in regard to the contents and significance of this agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the parties hereto.

SECTION 4.7

This Agreement is subject to the acceptance of and approval by the Public Service Commission.

SECTION 4.8

This Settlement Agreement is a product of all the parties, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party.

IN WITNESS WHEREOF, the parties hereto have hereunto affixed their signatures.

Louisville Gas and Electric Company
and Kentucky Utilities Company

By: Kendrick R. Riggs
Kendrick R. Riggs, Counsel

Commonwealth of Kentucky, ex. rel. A.B. Chandler, III, Attorney General, by and through the Utility and Rate Intervention Division

By: _____
Elizabeth E. Blackford,
Assistant Attorney General

Kentucky Industrial Utility Customers, Inc.

By: _____
Michael L. Kurtz, Counsel

DEC. -23' 02 (MON) 12:32 BOEHM KURTZ & LOWRY TEL:513 421 2764 P. 006

Lexington-Fayette Urban County Government

By: _____, Corporate Counsel
David J. Barberie

263713.02

PURSUANT TO SETTLEMENT
Case No. 2002-0071
LOUISVILLE GAS AND ELECTRIC COMPANY

Exhibit 1
Settlement Agreement

Determination of Balancing Adjustment and Earnings Sharing Mechanism Factor
Prior Adjustment Year - April 2001 through March 2002
Current Adjustment Year - April 2002 through March 2003

1	Revenue Adjustment Authorized for Prior Adjustment Year	($617,609)	(a)
2	Balancing Adjustment Authorized for Prior Adjustment Year	$0	(b)
3	Total Adjustment to Revenues Authorized for Prior Adjustment Year	($617,609)	(c)
4	Actual Earnings Sharing Mechanism Revenues for Prior Adjustment Year	($563,742)	
5	Balancing Adjustment for Current Adjustment Year	($53,867)	(d)
6	Actual Balancing Adjustment Revenues for Current Adjustment Year	($44,853)	
7	Remaining Balancing Adjustment Revenues for Current Adjustment Year	($9,014)	(e)
8	Actual Earnings Sharing Mechanism Revenues to be Refunded for Current Adjustment Year (Actual ESM Collections April 2002 through October 2002 of $587,408.71 times 75 percent)	($440,557)	
9	Actual Earnings Sharing Mechanism Revenues Refunded for Current Adjustment Year (Actual November 2002 and Estimated December 2002)	($216,295)	
10	Total Revenue Adjustment Plus Balancing Adjustment for Last Three Months of Current Adjustment Year	($233,276)	(f)
11	Actual Electric Revenues for the Current Reporting Period - Calendar Year 2001	$535,335,960	
12	Electric Revenues for Last Three Months of Current Adjustment Year (3/12 of Line 11)	$133,833,990	
13	Earnings Sharing Mechanism Factor for Last Three Months of Current Adjustment Year (Effective January 2003 through March 2003)	-0.174%	(g)

Notes:
(a) - From Form 1 filing for Prior Reporting Period
(b) - From Form 1a filing for Prior Reporting Period
(c) - Line 1 plus Line 2
(d) - Line 3 minus Line 4
(e) - Line 5 minus Line 6
(f) - Line 7 plus Line 8 minus Line 9
(g) - Line 10 divided by Line 12

PURSUANT TO SETTLEMENT
Case No. 2002-0072

KENTUCKY UTILITIES COMPANY

Exhibit 2
[redacted] to
Settlement Agreement

Determination of Balancing Adjustment and Earnings Sharing Mechanism Factor
Prior Adjustment Year - April 2001 through March 2002
Current Adjustment Year - April 2002 through March 2003

1	Revenue Adjustment Authorized for Prior Adjustment Year	$0	(a)
2	Balancing Adjustment Authorized for Prior Adjustment Year	$0	(b)
3	Total Adjustment to Revenues Authorized for Prior Adjustment Year	$0	(c)
4	Actual Earnings Sharing Mechanism Revenues for Prior Adjustment Year - April 2001 through December 2001	$0	
5	Balancing Adjustment for Current Adjustment Year	$0	(d)
6	Revenue Adjustment for Current Reporting Period (Calculated Revenue Adjustment of ($1,364,543) times 75 percent)	($1,023,407)	(e)
7	Actual Earnings Sharing Mechanism Revenues for Current Adjustment Year (Actual November 2002 and Estimated December 2002)	($550,672)	
8	Total Revenue Adjustment Plus Balancing Adjustment for Last Three Months of Current Adjustment Year	($472,736)	(f)
9	Actual Jurisdictional Revenue for the Current Reporting Period - Calendar Year 2001	$600,282,247	(g)
10	Jurisdictional Revenue for Last Three Months of Current Adjustment Year (3/12 of Line 9)	$150,070,562	
11	Earnings Sharing Mechanism Factor for Last Three Months of Current Adjustment Year (Effective January 2003 through March 2003)	-0.315%	(h)

Notes:
(a) - From Form 1 filing for Prior Reporting Period
(b) - From Form 1a filing for Prior Reporting Period
(c) - Line 1 plus Line 2
(d) - Line 3 minus Line 4
(e) - From Form 1 filing for Current Reporting Period times 75 percent
(f) - Line plus Line 6 minus Line 7
(g) - From Form 1 filing for Current Reporting Period
(h) - Line 8 divided by Line 10

PURSUANT TO SETTLEMENT

LOUISVILLE GAS AND ELECTRIC COMPANY

Earnings Sharing Mechanism 2002

	April	May	June	July	August	September	October	November	Estimated December	Cummulative Total
	-0.00191	0.0018	0.0018	0.0018	0.0018	0.0018	0.0018	-0.00262	-0.00262	
Residential	-25,695.59	#######	42,164.69	57,026.91	58,172.67	53,695.78	28,074.78	-34,776.02		
Small Commercial	-10,932.75	#######	14,293.30	16,713.67	16,914.62	16,508.61	11,480.31	-14,724.06		
Large Commercial	-14,100.24	#######	17,995.20	19,425.55	19,833.38	19,342.24	14,882.36	-19,229.14		
Large Industrial	-16,254.74	#######	19,494.38	17,904.19	19,892.97	19,831.72	17,004.93	-22,316.30		
Street Lights	-37.13	894.09	899.84	900.15	907.74	914.02	-195.60	-1,322.07		
Public Authorities	-6,098.79	7,045.54	9,014.84	9,732.32	10,174.60	10,343.91	7,744.72	-9,557.66		
	-73,119.24	#######	########	########	########	120,636.26	78,991.50	-101,925.25	-121,182.22	326,260.36

RESTATEMENT
(to breakout the $53,867.89 balancing adjustment from Year 2000 report period)

Apr-2002										
Actual Juris. Revenues	38282324.61									
Balancing Adjustment (2000)	0	0.00								0.00
ESM Factor (2001)	0.00191	73119.24								-73119.24
May-2002										
Actual Juris. Revenues	39665716.67									
Balancing Adjustment (2000)	-0.00011		-4363.23							-4363.23
ESM Factor (2001)	0.00191		75781.52							2642.28
Jun-2002										
Actual Juris. Revenues	57701250									
Balancing Adjustment (2000)	-0.00011			-6347.14						-10710.37
ESM Factor (2001)	0.00191			110209.39						112851.67
Jul-2002										
Actual Juris. Revenues	67612661.11									
Balancing Adjustment (2000)	-0.00011				-7437.39					-18147.76
ESM Factor (2001)	0.00191				129140.18					241991.85
Aug-2002										
Actual Juris. Revenues	69942211.11									
Balancing Adjustment (2000)	-0.00011					-7693.64				-25841.40
ESM Factor (2001)	0.00191					133589.62				375581.47
Sep-2002										
Actual Juris. Revenues	67020144.44									
Balancing Adjustment (2000)	-0.00011						-7372.22			-33213.62
ESM Factor (2001)	0.00191						128008.48			503589.95
Oct-2002										
Actual Juris. Revenues	43884166.67									
Balancing Adjustment (2000)	-0.00011							-4827.26		-38040.88
ESM Factor (2001)	0.00191							83818.76		587408.71
Nov-2002										
Actual Juris. Revenues	38902767.18									
Balancing Adjustment (2000)	-0.00008								-3112.22	-41153.10
ESM Factor (2001)	-0.00254								-98813.03	488595.68
Estimated Dec-2002										
Actual Juris. Revenues	46252755.91									
Balancing Adjustment (2000)	-0.00008									-3700.22	-44853.32
ESM Factor (2001)	-0.00254									-117402.00	371119.00