SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 26th day of August, 2003, 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 Office for Rate Intervention ("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 January 13, 2003 with the Kentucky Public Service Commission ("Commission") its Application for an Order approving its Plan to Address the Future of the Merger Surcredits approved by the Commission in *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of a Merger,* Case No. 97-300 and the Commission has established Case No. 2002-00430 to review LG&E's application;

WHEREAS, KU filed on January 13, 2003 with the Commission its Application for an Order approving its Plan to Address the Future of the Merger Surcredits approved by the Commission in *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of a Merger,* Case No. 97-300 and the Commission has established Case No. 2002-00429 to review KU's application;

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. 2002-00429;

WHEREAS, an informal conference attended by representatives of the AG, KIUC, LFUCG, the Commission Staff and Applicants took place on August 11, 2003 at the offices of the Commission during which potential settlement of the proceedings was discussed and negotiations to settle the pending proceedings before the Commission took place at the offices of the AG with representatives of the AG, KIUC, LFUCG, and Applicants on August 15, 2003 during which the parties reached an unanimous settlement of all issues in the forgoing proceedings which the parties believe offer valuable benefits to all classes of customers without affording any one class undue preference or undue discriminatory treatment; and

WHEREAS, the signatories to this Settlement Agreement desire to settle all issues pending before the Commission in Case Nos. 2002-00429 and 2002-00430.

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

ARTICLE 1.0 **Continued Customer Sharing of Non-Fuel Savings <u>From The LG&E/KU Merger</u>**

SECTION 1.1 LG&E's and KU's Merger Surcredit mechanisms will remain in place for another five year term, beginning July 1, 2003 and ending June 30, 2008. Customers and shareholders will continue to equally share during the entirety of this five-year period the LG&E/KU merger savings on a 50/50 basis using the same ratemaking mechanisms and treatment previously used and approved by the Commission. LG&E's customers will continue to be allocated 47 percent of the customer portion of the merger savings; KU's customers will continue to be allocated 53 percent of the customer portion of the merger savings.

SECTION 1.2 During the new five-year term, LG&E and KU will share certain amounts of gross non-fuel estimated savings, based upon the gross non-fuel estimated savings identified in the Deloitte & Touche Study in Case No. 97-300 and the parties' subsequent negotiations regarding the appropriate level of savings in this proceeding. The parties have agreed that the level of the merger non-fuel savings should be increased to amounts set forth herein and levelized over years six through ten. The parties further agree that result of this settlement agreement reflects an equitable compromise of the litigation positions of the parties.

SECTION 1.3 LG&E's and KU's customers' share of the LG&E/KU merger savings shall be levelized over the new five year term for the merger surcredit mechanisms and shall be distributed as follows:

SECTION 1.3.1 LG&E's electric customers, excluding certain LG&E industrial customers identified below, will receive a total of $90,226,275 over the five-year period or $18,045,255 annually in the form of monthly bill credits through the operation of the LG&E merger surcredit mechanism. The annual amounts of the credit due to be provided to the customers from July 1, 2003 through June 30, 2008 is set forth in the proposed revision to LG&E's Merger Surcredit Rider ("MSR") tariff. The version of the Merger Surcredit Rider tariff that LG&E proposes to implement the terms of this settlement agreement is contained in Exhibit 1 to this agreement.

SECTION 1.3.2 Certain LG&E industrial customers, in lieu of annual amounts distributed by the monthly operation of the LG&E merger surcredit mechanism, will receive one-time payments which, when combined with any merger surcredit amounts they received in the form of monthly bill credits subsequent to June 30, 2003, but prior to receipt of their one-time payments, will total $6,910,728. This figure is the cumulative amount of merger surcredit these customers would be entitled to receive over the five year period, assuming service during that time is taken at the level of 2002 service, discounted by a present value factor of 10%. Such one-time payments are in accord with prior commission orders in Case Nos. 93-465, 94-332 and 10320 and will provide additional monetary benefit to other LG&E customers by increasing the surcredit during the five year period ending June 30, 2008 by the difference between the merger surcredit amounts for the certain industrial customers identified in Exhibit 2 using a ten percent present value discount factor and the authorized weighted average cost of capital for LG&E and KU ($168,074) plus an added contribution of savings made by LG&E to customers not eligible for the one-time payment option of $331,926. A list of these customers and the amounts they will receive through the one-time payment, unadjusted for the merger surcredit amounts included in their bills for service rendered subsequent to June 30, 2003, and prior to receipt of such one-time payments, are shown on Exhibit 2 to this document. LG&E reserves the right to adjust the one-time payments to reflect prior monthly billings of the merger surcredit. These customers may elect between continuing to receive the merger surcredit amounts over the new five-year term or receiving the one-time payment in the form of either a bill credit or by direct payment; and said election must be made in writing to LG&E within seven days of the execution of this settlement agreement. The KIUC one-time payment allocation is not a refund and is intended to provide a cash-flow option to the KIUC members in exchange for providing LG&E's

other customers a greater amount of merger surcredit savings, thereby providing a valuable benefit to all customers.

SECTION 1.3.2.1 Direct payments will be made 30 days following each customer's first billing after the Commission issues an order approving the settlement.

SECTION 1.3.2.2 LG&E industrial customers electing to receive the one-time payment in the form of a bill credit will receive their credit on a pre-tax basis — i.e., the gross amount due for electric services shall be equal to the monthly usage billed on the tariffed rate less the one-time bill credit ("Gross Receipts"), and will separately indemnify LG&E for this provision. LG&E will calculate and invoice applicable Kentucky sales and use taxes, utility gross receipts license taxes for schools and municipal franchise fees upon the Gross Receipts.

SECTION 1.3.3 KU's electric customers, excluding certain KU industrial customers and certain accounts of LFUCG identified below, will receive a total of $89,494,665 over the five year period or $17,898,933 annually in the form of bill credits through the operation of the KU merger surcredit mechanism. The annual amounts of the credit due to be provided to the customers from July 1, 2003 through June 30, 2008 is set forth in the proposed revision to KU's MSR tariff. The version of the MSR tariff that KU proposes to implement the terms of this settlement agreement is contained in Exhibit 3 to this agreement.

SECTION 1.3.4 Certain KU industrial customers and certain accounts of LFUCG, in lieu of annual amounts distributed by the monthly operation of the KU merger surcredit mechanism, will receive one-time payments which, when combined with the merger surcredit amounts they received in the form of monthly bill credits subsequent to June 30, 2003, but prior to receipt of their one-time payments, will total $5,202,222 and $147,237 respectively. These figures are the cumulative amount of merger surcredit these customers would be entitled to receive over the five year period, assuming service during that time is taken at the level of 2002 service, discounted by a present value factor of 10%. Such one-time payments are in accord with prior commission orders in Case Nos. 93-465, 94-332 and 10320, and will provide additional monetary benefit to other KU customers by increasing the dollar amount available for distribution through the merger surcredit during the five-year period ending June 30, 2008 by the difference between the merger surcredit amounts for certain industrial customers shown on Exhibit 4 and certain accounts for LFUCG shown on Exhibit 5 using a ten percent present value discount factor and the authorized weighted average cost of capital for LG&E and KU ($112,024) plus an added contribution of savings made by the company to customers not eligible for the one-time payment option of $387,976. A list of these customers and the amounts they will receive through the one-time payment, unadjusted for the merger surcredit amounts included in their bills for service rendered subsequent to June 30, 2003, and prior to receipt of such one-time payments, are shown on Exhibit 4 and Exhibit 5, respectively, to this document. KU reserves the right to adjust the one-time payments to reflect prior monthly billings of the merger surcredit. These customers may elect between continuing to receive the merger surcredit amounts over the new five-year term or receiving the one-time payment in the form of either a bill credit or by direct payment and said election must be made in writing to KU within seven days of the execution of this settlement agreement. The KIUC and LFUCG one-time payment allocation is not a refund and is intended to provide a cash-flow option to the KIUC members and the LFUCG in exchange for providing KU's other customers a greater amount of merger surcredit savings, thereby providing valuable benefit to all customers.

SECTION 1.3.4.1 Direct payments will be made 30 days following each customer's first billing after the Commission issues an order approving the settlement.

SECTION 1.3.4.2 KU industrial customers electing to receive the one-time payment in the form of a bill credit will receive their credit on a pre-tax basis — i.e., the gross amount due for electric services shall be equal to the monthly usage billed on the tariffed rate less the one-time bill credit ("Gross Receipts"), and will separately indemnify KU for this provision. KU will calculate and invoice applicable Kentucky sales and use taxes, utility gross receipts license taxes for schools and municipal franchise fees upon the Gross Receipts.

ARTICLE 2.0 Accounting Treatments

SECTION 2.1 LG&E shall be permitted to record on its books a deferred debit equal to the payment made pursuant to Section 1.3.2, and amortize this amount on a straight-line basis over the five-year period commencing July 1, 2003.

SECTION 2.2 KU shall be permitted to record on its books a deferred debit equal to the payment made pursuant to Section 1.3.4, and amortize this amount on a straight-line basis over the five-year period commencing July 1, 2003.

ARTICLE 3.0 **<u>Continued Shareholder Sharing of Non-Fuel Savings From LG&E/KU Merger</u>**

SECTION 3.1 The LG&E shareholders' fifty-percent share of the savings is equal to $19,427,401 annually and for ratemaking purposes shall be provided as follows:

SECTION 3.1.1 In the calculation of operating income in the annual Earnings Sharing Mechanism, the shareholders' portion of the merger savings will be recognized as an adjustment to increase expense as described below and as approved by the Commission in Case No. 98-426.

SECTION 3.1.1.1 The adjustment in the 2003 annual Earnings Sharing Mechanism filing will recognize the shareholders' portion of the merger savings at the year-five level for the entire year since the current tariff will remain in effect until December 31, 2003. The total 2003 adjustment will be $18,332,116.

SECTION 3.1.1.2 The adjustment in the 2004 annual Earnings Sharing Mechanism filing will recognize the shareholders' portion of the merger savings as an adjustment to increase expense in the amount of $19,975,044 to reflect the shareholders' fifty-percent portion of the savings equal to $19,427,401 plus the annual merger savings over the year-five savings level for the period July 1, 2003 through December 31, 2003 of $547,643. The $547,643 amount will be included in the total amount of the annual savings to be distributed in the MSR tariff for the period January 1, 2004 through June 30, 2004. The total 2004 adjustment to increase the expense level in the 2004 annual Earnings Sharing Mechanism filing will be $19,975,044; and the total amount to be distributed through LG&E's MSR tariff in 2004 will be $18,592,898. The difference in these two amounts is the amortization identified in Section 2.1.

SECTION 3.1.1.3 The adjustments in the 2005, 2006 and 2007 annual Earnings Sharing Mechanism filing will recognize the full $19,427,401 as an adjustment to expense for the shareholders' fifty-percent share of the savings for each year. This adjustment is consistent with the amount distributed through the MSR tariff commencing July 1, 2004, plus the amortization identified in Section 2.1.

SECTION 3.1.1.4 The adjustment in the 2008 annual Earnings Sharing Mechanism filing to expense to recognize the shareholders' fifty-percent share of the savings will reflect one-half of the annual shareholders' savings, $9,713,701, for the six months ended June 30, 2008, and includes the remaining amortization identified in Section 2.1.

SECTION 3.1.1.5 Operating revenues included in the annual calculation of the Earnings Sharing Mechanism filings will be proformed to reflect a debit equal to the customers' fifty-percent share of the savings recognized for that year and the amortized amounts provided for in Section 2.1 in lieu of the actual MSR revenue surcredit.

SECTION 3.1.1.6 A summary of the LG&E annual shareholders' and customers' savings is set forth below. These savings are subject to annual balancing adjustments required to account for revenue variances and adjustments needed to reflect changes in the deferred amount pursuant to Section 2.1. For example, the July through December 2003 customers' savings amount at the year-five level of $9,166,058 will be reduced by the industrial customers' portion of the surcredit that will not be paid subsequent to the one-time payments pursuant to Section 1.3.2. Such reduction will also change the amortization of these one-time payments included in customer savings during this six-month period.

	Shareholders' Savings		Customers' Savings		
Year	January 1 thru June 30	July 1 thru December 31	January 1 thru June 30	July 1 thru December 31	Amortization of Industrials
2003	9,166,058	9,166,058	9,166,058	8,474,985	691,073
2004	10,261,343	9,713,701	9,570,270	9,022,628	1,382,146
2005	9,713,701	9,713,701	9,022,628	9,022,628	1,382,146
2006	9,713,701	9,713,701	9,022,628	9,022,628	1,382,146
2007	9,713,701	9,713,701	9,022,628	9,022,628	1,382,146
2008	9,713,701	-	9,022,628	-	691,073

Customer savings for the period January 1 through June 30, 2003, will also be adjusted for the remaining five-year amortization of the costs to achieve the merger, $1,814,670.

SECTION 3.1.2 In the calculation of the test year operating income in LG&E's revenue requirement in any LG&E electric base rate case, in order to reflect the agreed upon going forward levels of the shareholders' portion of the merger savings, the full $19,427,401 will be recognized as an adjustment to increase expense to secure the fifty-percent portion of the shareholders' savings consistent with the recognition of this type of an expense adjustment in Case No. 98-426. Operating revenues included in the test year net operating income will be proformed to reflect a debit equal to $19,427,401.

SECTION 3.2 The KU shareholders' fifty-percent share of the savings is equal to $18,968,825 annually and for ratemaking purposes shall be provided as follows:

SECTION 3.2.1 In the calculation of operating income in the annual Earnings Sharing Mechanism the shareholders' portion of the merger savings will be recognized as an adjustment to increase expense as described below and as approved by the Commission in Case No. 98-474.

SECTION 3.2.1.1 The adjustment in the 2003 annual Earnings Sharing Mechanism filing will recognize the shareholders' portion of the merger savings at the year-five level for the entire year since the current tariff will remain in effect until December 31, 2003. The jurisdictional allocation of the year-five savings will change to the percentage used in the calculation of this settlement for the period July 1 through December 31, 2003. The total 2003 adjustment will be $17,869,521.

SECTION 3.2.1.2 The adjustment in the 2004 annual Earnings Sharing Mechanism filing will recognize the shareholders' portion of the merger savings as an adjustment to increase expense in the full amount of $19,546,024 to reflect the shareholders' fifty-percent portion of the savings, equal to $18,968,825, plus the annual merger savings over the year-five savings level used July 1, 2003 through December 31, 2003 of $577,199. The $577,199 amount will be included in the total amount of savings to be distributed in KU's MSR tariff for the period January 1, 2004 through June 30, 2004. The total 2004 adjustment to increase the expense level in the 2004 annual

Earnings Sharing Mechanism filing will be $19,546,024; and the total amount to be distributed in KU's MSR tariff in 2004 will be $18,476,131. The difference in these two amounts is the amortization identified in Section 2.2.

SECTION 3.2.1.3 The adjustments in the 2005, 2006 and 2007 annual Earnings Sharing Mechanism filing will recognize the full $18,968,825 as an adjustment to expense for the shareholders' fifty-percent share of the savings for each year. This adjustment is consistent with the amount distributed through the MSR Rider tariff commencing July 1, 2004, plus the amortization identified in Section 2.2.

SECTION 3.2.1.4 The adjustment in the 2008 annual Earnings Sharing Mechanism filing to increase expense to recognize the shareholders' fifty-percent share of the savings will reflect the remaining half of the shareholders' savings, $9,484,413 for the six months ended June 30, 2008, and includes the remaining amortization identified in Section 2.2.

SECTION 3.2.1.5 Operating revenues included in the annual calculation of the Earnings Sharing Mechanism will be proformed to reflect a debit equal to the customers' fifty-percent share of the savings recognized for that year and the amortized amounts provided for in Section 2.2 in lieu of the actual MSR revenue surcredit.

SECTION 3.2.1.6 A summary of the KU annual shareholders' and customers' savings is set forth below. These savings are subject to annual balancing adjustments required to account for revenue variances and adjustments needed to reflect changes in the deferred amount pursuant to Section 2.2. For example, the July through

December 2003 customers' savings amount at the year-five level of $8,907,214 will be reduced by the industrial customers' portion of the surcredit that will not be paid subsequent to the one-time payments pursuant to Section 1.3.4. Such reduction will also change the amortization of these one-time payments included in customer savings during this six-month period.

	Shareholders' Savings		Customers' Savings		
Year	January 1 thru June 30	July 1 thru December 31	January 1 thru June 30	July 1 thru December 31	Amortization of Industrials and Lexington
2003	8,962,307	8,907,214	8,962,307	8,372,268	534,946
2004	10,061,612	9,484,413	9,526,665	8,949,467	1,069,892
2005	9,484,413	9,484,413	8,949,467	8,949,467	1,069,892
2006	9,484,413	9,484,413	8,949,467	8,949,467	1,069,892
2007	9,484,413	9,484,413	8,949,467	8,949,467	1,069,892
2008	9,484,413	-	8,949,467	-	534,946

Customer savings for the period January 1 through June 30, 2003, will also be adjusted for the remaining five-year amortization of the costs to achieve the merger, $2,046,330.

SECTION 3.2.2 In the calculation of the test year operating income in KU's revenue requirement in any KU electric base rate case, in order to reflect the agreed upon going forward levels of the shareholders' portion of the merger savings, the full $18,968,825 will be recognized as an adjustment to increase expense to secure the fifty-percent portion of the shareholders' savings consistent with the recognition of this type of an expense adjustment in Case No. 98-474. Operating revenues included in the test year net operating income will be proformed to reflect a debit equal to $18,968,825.

ARTICLE 4.0 **Termination**

SECTION 4.1 Six months prior to the expiration of the five-year period in which the merger surcredit is in operation, LG&E and KU will file with the Commission a plan for the future disposition of the merger surcredits. If the shareholder savings identified in this settlement agreement are included in LG&E's or KU's base rates or their Earnings Sharing Mechanism or the succeeding ratemaking mechanism thereto as provided for in this settlement agreement at the conclusion of the tenth year of the operation of the merger surcredit mechanisms, the merger surcredit tariffs shall remain in effect following the expiration of the tenth year until the Commission enters an order on their future disposition.

ARTICLE 5.0 **Changes in Regulation During the Term of the Settlement Agreement**

SECTION 5.1 Notwithstanding any change in law which permits the deregulation of LG&E's and KU's retail electric operations, rates and services under the laws of the Commonwealth of Kentucky during the term of this Settlement Agreement, LG&E and KU commit to continue the equal sharing of the LG&E/KU merger savings identified in this Settlement Agreement between customers and shareholders using the same ratemaking mechanisms and treatments identified in this Settlement Agreement.

ARTICLE 6.0 **Approval of Settlement Agreement**

SECTION 6.1 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 by September 19, 2003.

SECTION 6.2 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 6.3 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 the parties hereto hereby waive any and all claims or demands, asserted or unasserted, directly arising out of or in connection with the sharing of the non-fuel savings from the LG&E/KU merger between customers and shareholders and the ratemaking treatment thereof during the additional five year term in this Settlement Agreement and such claims or demands shall be deemed compromised and settled under and released and discharged by this Settlement Agreement.

SECTION 6.4 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 6.5 Status Quo

Should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement and thereafter 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 7.0 **Additional Provisions**

SECTION 7.1 This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

SECTION 7.2 This Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors and assigns.

SECTION 7.3 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 7.4 For the purpose of this Settlement Agreement only, the terms 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 operating income of LG&E or KU are unknown, and this Settlement Agreement shall be implemented as written.

SECTION 7.5 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 precedential value in this or any other jurisdiction.

SECTION 7.6 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 7.7 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 7.8 This Agreement is subject to the acceptance of and approval by the Public Service Commission.

SECTION 7.9 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, Counsel
Linda S. Portasik, Counsel

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

By: ______________________________
Elizabeth E. Blackford,
Assistant Attorney General

Kentucky Industrial Utility Customers, Inc.

By: ______________________ 8/26/03

David F. Boehm, Counsel
Michael L. Kurtz, Counsel

Lexington-Fayette Urban County Government

By: ______________________
David J. Barberie, Corporate Counsel

By: ______________________
David L. Holmes, Commissioner of Law

282152.06

STANDARD RIDER MSR

Merger Surcredit Rider

AVAILABILITY

In all territory served.

APPLICABLE

To all electric rate schedules excluding those customers receiving their one-time payment of the surcredit amount under the settlement agreement in PSC Case No. 2002-00430.

SURCREDIT

The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall be adjusted by the Merger Surcredit Factor, which shall be calculated in accordance with the following formula:

Merger Surcredit Factor = MS + BA

Where:

(MS) is the Merger Surcredit which is based on the total Company savings that are to be distributed to Company's customers in each 12-month period beginning July 1, 1998. T

	Savings to be Distributed	Merger Surcredit (MS)
Year 1	$ 6,183,320	1.109%
Year 2	9,018,830	1.587%
Year 3	12,168,065	2.103%
Year 4	13,355,755	2.265%
Year 5	14,702,775	2.451%
Year 6	18,045,255	3.185%*
Year 7	18,045,255	3.129%
Year 8	18,045,255	3.052%
Year 9	18,045,255	3.001%
Year 10	18,045,255	2.954%

T

*Reflects the average factor for the year. Actual application determined by the Final Order in PSC Case No. 2002-00430.

(BA) is the Balancing Adjustment for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The Balancing Adjustment will be determined by dividing the differences between amounts which were expected to be distributed and the amounts actually distributed from the application of the Merger Surcredit Factor from the previous year by the expected retail sales revenue. The final Balancing Adjustment will be applied to customer billings in the second month following the tenth distribution year.

STANDARD RIDER MSR

Merger Surcredit Rider

TERMS OF DISTRIBUTION

1. The total distribution to Company's customers will, in no case, be less than the sum of the amounts shown above.

2. On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Surcredit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the Balancing Adjustment (BA) which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under distributions.

3. The Merger Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the school tax, the franchise fee, sales tax or other similar items.

4. The Company shall file a plan with the PSC midway through Year 10 of this schedule to address the future disposition of the Merger Surcredit and pending a final order from the Commission in that proceeding, the Merger Surcredit shall remain in effect. T

Exhibit 2

Louisville Gas and Electric Company

One-time Payments to Certain Industrial Customers

		12 Months Ended December 2002				
Customer	Account	Total Billings	Merger Surcredit	Total Billings Less Merger Surcredit	Allocation Factor	Discounted Merger Surcredit Amount
						$ 78,165,944
E I duPont & Co Inc	[redacted]	$ 4,871,515.53	$ (125,650.01)	$ 4,997,165.54	0.829805%	$ 648,625.10
Golden Foods	[redacted]	602,725.35	(15,546.33)	618,271.68	0.102667%	80,250.80
Carbon Industries, LLC	[redacted]	6,791,778.43	(174,839.64)	6,966,618.07	1.156843%	904,257.28
Arch Chemicals, Inc.	[redacted]	1,871,213.33	(48,295.36)	1,919,508.69	0.318744%	249,149.54
Ford Motor Company-KTP	[redacted]	8,858,266.05	(228,350.30)	9,086,616.35	1.508880%	1,179,430.09
Ford Motor Company-LAP	[redacted]	5,088,919.89	(131,218.89)	5,220,138.78	0.866831%	677,566.71
Kosmos Cement Co Inc	[redacted]	5,255,116.15	(135,706.87)	5,390,823.02	0.895174%	699,721.29
Rohm & Haas Co	[redacted]	3,402,928.39	(87,780.73)	3,490,709.12	0.579650%	453,089.16
Oxy Vinyls LP	[redacted]	5,765,179.76	(148,510.77)	5,913,690.53	0.981999%	767,588.76
General Electric Co	[redacted]	7,907,696.93	(203,798.29)	8,111,495.22	1.346956%	1,052,860.73
Alcan Rolled Products	[redacted]	608,870.09	(15,744.13)	624,614.22	0.103720%	81,074.05
Protein Technologies	[redacted]	879,604.04	(22,671.14)	902,275.18	0.149827%	117,114.06
Total KIUC Members served by LG&E		$ 51,903,813.94	$ (1,338,112.46)	$ 53,241,926.40	8.841098%	$ 6,910,727.58
Total LG&E		$ 587,153,607.29	$ (15,055,844.00)	$ 602,209,451.29		
Percentage of Total		8.839904%	8.887662%	8.841098%		

ELECTRIC RATE SCHEDULE MSR

Merger Surcredit Rider

APPLICABLE

In all territory served by the Company.

AVAILABILITY OF SERVICE

To Kentucky Utilities Company Electric Rate Schedules RS, FERS, GS, CWH, 33, AES, LP, LCI-TOD, HLF, MP, LMP-TOD, M, ST.LT., P.O.LT., C.O.LT., and SEASONAL/TEMPORARY SERVICE RIDER, excluding those customers receiving their one-time payment of the surcredit amount under the settlement agreement in PSC Case No. 2002-00429.

RATE

The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall be adjusted by the Merger Surcredit Factor, which shall be calculated in accordance with the following formula:

Merger Surcredit Factor = MS + BA

Where:

(MS) is the Merger Surcredit which is based on the total Company savings that are to be distributed to the Company's Kentucky jurisdictional retail customers in each 12-month period beginning July 1, 1998. T

	Savings to be Distributed	Merger Surcredit (MS)
Year 1	$ 6,008,699	0.972%
Year 2	$ 8,764,133	1.387%
Year 3	$11,824,431	1.836%
Year 4	$12,978,580	1.979%
Year 5	$14,287,560	2.139%
Year 6	$17,898,933	2.646% *
Year 7	$17,898,933	2.568%
Year 8	$17,898,933	2.503%
Year 9	$17,898,933	2.442%
Year 10	$17,898,933	2.389%

*Reflects the average factor for the year. Actual application determined by the Final Order in PSC Case No. 2002-00429.

(BA) is the Balancing Adjustment for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The Balancing Adjustment will be determined by dividing the differences between amounts which were expected to be distributed and the amounts actually distributed from the application of the Merger Surcredit Factor from the previous year by the expected Kentucky jurisdictional retail electric revenues. The final Balancing Adjustment will be applied to customer billings in the second month following the tenth distribution year.

TERMS OF DISTRIBUTION

(1) The total distribution to Company's customers will, in no case, be less than the sum of the amounts shown above.

(2) On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Surcredit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the Balancing Adjustment (BA) which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under-distributions.

ELECTRIC RATE SCHEDULE MSR

Merger Surcredit Rider

(3) The Merger Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the school tax, the franchise fee, sales tax or similar items.

(4). The Company shall file a plan with the PSC midway through Year 10 of this schedule to address the future disposition of the Merger Surcredit and pending a final order from the Commission in that proceeding, the Merger Surcredit shall remain in effect. T

Exhibit 4

Kentucky Utilities Company

One-time Payments to Certain Industrial Customers

Customer	Account	Total Billings	Merger Surcredit	Total Billings Less Merger Surcredit	Allocation Factor	Discounted Merger Surcredit Amount
		12 Months Ended December 2002				
						$ 75,958,588
Clopay Corp.	[redacted]	$ 14,681.35	$ (347.04)	$ 15,028.39	0.002206%	$ 1,675.75
Clopay Corp.		324,386.58	(7,651.17)	332,037.75	0.048743%	37,024.17
Clopay Corp.		301,346.04	(7,095.35)	308,441.39	0.045279%	34,393.03
Clopay Corp.		174,734.36	(4,109.81)	178,844.17	0.026254%	19,942.18
Clopay Corp.		24,829.72	(585.59)	25,415.31	0.003731%	2,833.96
Clopay Corp.		16,064.71	(369.28)	16,433.99	0.002412%	1,832.49
R R Donnelley & Sons		1,879,258.81	(44,233.11)	1,923,491.92	0.282365%	214,480.69
Corning, Inc.		2,234,660.40	(52,505.95)	2,287,166.35	0.335752%	255,032.53
Toyota Motor Mfg. Kentucky		9,864,139.85	(232,253.75)	10,096,393.60	1.482133%	1,125,807.41
Toyota Motor Mfg. Kentucky		7,062,820.64	(166,263.19)	7,229,083.83	1.061217%	806,085.47
Osram Sylvania, Inc.		617,340.66	(14,551.86)	631,892.52	0.092761%	70,459.74
Osram Sylvania, Inc.		1,493,713.07	(35,169.34)	1,528,882.41	0.224437%	170,479.40
Osram Sylvania, Inc.		199,346.32	(4,688.72)	204,035.04	0.029952%	22,751.11
Lexmark International, Inc.		947,208.68	(22,213.97)	969,422.65	0.142310%	108,096.34
Lexmark International, Inc.		2,549,116.03	(60,012.31)	2,609,128.34	0.383016%	290,933.19
Square D		869,494.63	(20,640.05)	890,134.68	0.130670%	99,255.26
Westvaco		11,476,104.56	(270,186.22)	11,746,290.78	1.724335%	1,309,780.68
TI Group		668,516.80	(15,823.68)	684,340.48	0.100460%	76,308.00
Dow Corning		4,125,025.65	(96,977.93)	4,222,003.58	0.619783%	470,778.29
Dow Corning		738,374.87	(17,388.07)	755,762.94	0.110945%	84,272.02
Total KIUC Members served by KU		$ 45,581,163.73	$ (1,073,066.39)	$ 46,654,230.12	6.848760%	$ 5,202,221.71
Total KU		$ 665,560,760.33	$ (15,646,161.73)	$ 681,206,922.06		
Percentage of Total		6.848535%	6.858336%	6.848760%		

Exhibit 5

Kentucky Utilities Company

One-time Payments to Certain Lexington-Fayette Urban County Government Accounts

Customer	Account	12 Months Ended December 2002 Total Billings	Merger Surcredit	Total Billings Less Merger Surcredit	Allocation Factor	Discounted Merger Surcredit Amount
						$ 75,958,588
Lex Fay Urban Co Gov 343 W.H. Sewage Treatment Plant (Ashgrove Pike)	[redacted]	$ 349,823.94	$ (8,242.64)	$ 358,066.58	0.052564%	$ 39,926.53
Lex Fay Urban Co Gov 344 Sewer Pumping (Elkhorn Road)		78,315.64	(1,852.09)	80,167.73	0.011768%	8,939.17
Lex Fay Urban Co Gov 342 T.B. Sewage Treatment Plant (Old Frankfort Pike)		343,119.21	(8,089.12)	351,208.33	0.051557%	39,161.80
Lex Fay Urban Co Gov 541 Fayette County Detention Center (Old Frankfort Circle)		144,130.07	(3,399.60)	147,529.67	0.021657%	16,450.43
Lex Fay Urban Co Gov 541 Fayette County Detention Center (Old Frankfort Circle)		104,581.30	(2,445.19)	107,026.49	0.015711%	11,934.08
Lex Fay Urban Co Gov 713 Government Center		111,953.44	(2,632.22)	114,585.66	0.016821%	12,776.98
Lex Fay Urban Co Gov 551 Police Headquarters		82,012.92	(1,925.43)	83,938.35	0.012322%	9,359.62
Lex Fay Urban Co Gov 713 Phoenix Building		76,123.37	(1,798.29)	77,921.66	0.011439%	8,688.72
Total LFUCG Members served by KU		$ 1,290,059.89	$ (30,384.58)	$ 1,320,444.47	0.193839%	$ 147,237.34
Total KU		$ 665,560,760.33	$ (15,646,161.73)	$ 681,206,922.06		
Percentage of Total		0.193831%	0.194198%	0.193839%		