

STANDARD RATE SCHEDULE

ESM

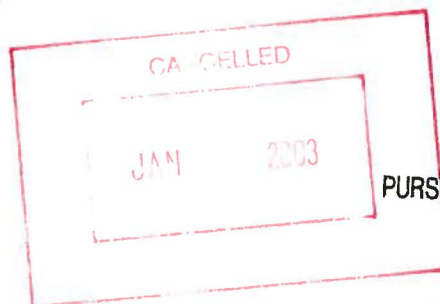
Earnings Sharing Mechanism

- (3) The Earnings Sharing Mechanism Report's determination of the return on equity will
 - a) exclude all revenues and expenses associated with the Fuel Adjustment Clause and the Environmental Surcharge,
 - b) contain a threshold of 11.5% return on equity with a symmetrical deadband of 100 basis points above and below the threshold, and
 - c) share any revenue surplus or deficit outside of the deadband, 60% LG&E and 40% ratepayers.
- (4) The Earnings Sharing Mechanism Report will contain
 - a) the calculation of the adjusted revenues, expenses and net operating income. These calculations will recognize the effect of the Commission's final order in Case Nos. 98-426 and 2001-054. Revenues will be adjusted for off-system sales. Filings would recognize adjustments to reflect the shareholders' portion of LG&E's merger savings and the elimination of advertising expenses pursuant to KAR 807 5:016.
 - b) the calculation of the adjusted capitalization, capital structure, and the cost rates for debt and preferred stock.
 - c) the calculation of the rate of return on common equity reflecting the adjusted net operating income, the adjusted capitalization, adjusted capital structure, and the Current Reporting Period cost rates for debt and preferred stock.
 - d) the calculation of the revenue requirement for the Current Reporting Period based on the upper and lower points of the deadband. This calculation will reflect the adjusted financial data described above.
 - e) a comparison of the adjusted net operating income to the upper and lower point revenue requirements, a calculation of the amount of sharing with or collection from (Revenue Adjustment) ratepayers, and a determination of the Earnings Sharing Mechanism Factor to be applied to ratepayers' bills. The Revenue Adjustment used to compute the Earning Sharing Mechanism Factor will be applied in the first April billing cycle following the Current Reporting Period, if applicable.
- (5) The Balancing Adjustment will be used to compute the Earning Sharing Mechanism Factor to be applied in the second through twelfth months of the Current Adjustment Year. This calculation will be filed ten days prior to the first billing cycle of the second month of the Current Adjustment Year.
- (6) This schedule will be subject to Commission audit at the beginning of the third Current Reporting Period, 2002. Should the Commission order the Earning Sharing Mechanism cease to be effective, the Earning Sharing Mechanism will be withdrawn with completion of application of a final Balancing Adjustment.

**PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE**

APR 12 2002

**PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)**



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**Michael S. Beer, Vice President
Louisville, Kentucky**

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