

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)
COMPANY FOR AN ADJUSTMENT OF ITS) CASE NO. 2014-00371
ELECTRIC RATES)

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ORDER

Kentucky Utilities Company ("KU"), a subsidiary of LG&E and KU Energy LLC, is a jurisdictional electric utility that generates, transmits, distributes, and sells electricity to approximately 515,000 consumers in portions of 77 counties in Central, Northern, Southeastern, and Western Kentucky.¹ Its most recent general rate increase was granted in Case No. 2012-00221.²

BACKGROUND

On October 22, 2014, KU filed a notice of its intent to file an application for approval of an increase in its electric rates based on a forecasted test year ending June 30, 2016. On November 26, 2014, KU filed its Application, which included new rates to be effective January 1, 2015, based on a request to increase its electric revenues by \$153 million.³ Determining that an investigation would be necessary regarding the reasonableness of KU's proposed rates, the Commission suspended the proposed

¹ See KU's Application at 1-2 for a list of the counties served.

² Case No. 2012-00221, *Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates* (Ky. PSC Dec. 20, 2012).

³ KU's affiliate, Louisville Gas and Electric Company ("LG&E"), filed a concurrent application, which was docketed as Case No. 2014-00372, *Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates* (filed Nov. 26, 2014).

rates for six months from their effective date, pursuant to KRS 278.190(2), up to and including June 30, 2015.

The following parties requested and were granted full intervention: the Kentucky Industrial Utility Customers, Inc. ("KIUC"); the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention; the Kentucky School Boards Association; the Kentucky Cable Television Association; Kroger Co.; the Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. ("CAC"), Wal-Mart Stores East, LP and Sam's East, Inc.; Lexington-Fayette Urban County Government ("LFUCG"), and Alice Howell, Carl Vogel, and the Sierra Club. On December 12, 2014, the Commission issued a Procedural Order establishing the schedule for processing this case. The schedule provided for discovery, intervenor testimony, rebuttal testimony by KU, a formal evidentiary hearing, and an opportunity for the parties to file post-hearing briefs.⁴ All intervenor testimonies were filed by March 6, 2015, and KU's rebuttal testimony was filed jointly with that of LG&E on April 14, 2015.⁵

Parties in this case and the LG&E rate case participated an informal conference at the Commission's offices on April 16, 17, and 20, 2015, to discuss procedural matters and the possible resolution of pending issues.⁶

On April 20, 2015, KU and LG&E filed a Settlement Agreement, Stipulation and Recommendation ("Settlement") intended to address all of the issues raised in the two

⁴ Two public meetings were conducted in the LG&E and KU service territories: in Louisville on March 30, 2015; and in Lexington on April 13, 2015.

⁵ LFUCG did not file testimony.

⁶ For administrative efficiency, the informal conference was a joint conference for this case and the LG&E rate case, Case No. 2014-00372.

cases. Under the terms of the Settlement, the utilities and intervenors agreed to forego cross-examination of each other's witnesses at the formal evidentiary hearing, which was held at the Commission's offices on April 21, 2015.

SETTLEMENT TERMS

The Settlement reflects the agreement of the parties on all issues raised in this case as well as the LG&E rate case. The major provisions of the Settlement as they relate to KU's revenues and rates are as follows:

- KU's base rate revenues should be increased by \$125 million to be effective for service rendered on and after July 1, 2015.
- Other rate and tariff changes include deleting the Low Emission Vehicle tariff and adding two optional Residential Time-of-Day rate classes, as proposed in KU's Application, with April and October added to the summer pricing period. The changes are set forth in Settlement Exhibit 4.
- The allocation of the increase in KU's electric revenues is set forth in Settlement Exhibit 1.
- The electric rates for KU resulting from the Settlement are set forth in Exhibit 4 to the Settlement.
- The monthly residential electric customer charge should remain at \$10.75.
- A reasonable return on equity ("ROE") to be used in KU's monthly environmental cost recovery filings is 10.00 percent.
- The Curtailable Service Riders ("CSR10" and "CSR30") should be combined into a single CSR, which will be similar to the existing CSR10 except that:

- CSR credits should be \$6.50 per kilovolt-ampere (“kVA”) month (primary) and \$6.40 per kVA month (transmission);
- The required notice period to CSR customers should be 60 minutes;
- KU may request up to 100 hours of physical curtailment from CSR customers annually, but such requests may be made only when all available KU and LG&E generating units have been dispatched or are being dispatched and all off-system sales have been or are being curtailed; and
- Each CSR customer will certify annually its ability to interrupt load in its CSR contract.
- An Off-System Sales (“OSS”) tracker should be implemented under which electric OSS margins will be shared on a 75 percent–25 percent basis between customers and KU. OSS margins should be credited to customers through the fuel adjustment clause.
- KU’s Pole Attachment Rates should be reset to \$7.25 per attachment per year.

All parties to this case agreed that the amount of increase in electric revenues, the allocation of the increase, and the proposed rates, all as set forth in the Settlement, are fair, just and reasonable for KU. The Settlement addresses several other issues, including regulatory accounting, contributions to various low-income assistance programs, and tariffs. The remaining provisions of the Settlement affecting KU’s operations are as follows:

- The Commission should authorize regulatory asset treatment for the difference between: (1) KU's pension expense booked in accordance with its accounting policy on file with the Securities and Exchange Commission and Generally Accepted Accounting Principles; and (2) pension expense with actuarial gains and losses amortized over 15 years.

- The Commission should authorize regulatory asset treatment for complete recovery of costs incurred by Green River Units 3 and 4 during the forecasted test period through retirement of the units. The asset should be amortized over three years, beginning with the effective date of new rates resulting from this proceeding.

- Depreciation rates for Cane Run Unit 7 for ratemaking purposes should be based on a 40-year service life.

- KU's contribution for low-income customer support will be increased to \$470,000 annually starting in 2015, with \$100,000 for Wintercare and \$370,000 for the Home Energy Assistance ("HEA") program, both of which are administered by CAC. Up to 10 percent of the total contribution to CAC may be used for reasonable administrative expenses.

- The HEA program approved in Case No. 2010-00204⁷ should be made permanent, and the monthly HEA charge to residential customers should continue at \$0.25 per meter until the effective date of new base rates for KU following its next base rate case.

⁷ Case No. 2010-00204, *Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of Acquisition of Ownership and Control of Utilities* (Ky. PSC Sept. 30, 2010).

- The period in which a residential customer may pay in full any required deposit should be extended from four months to six months.

- The School Energy Management Program (“SEMP”) approved in Case No. 2013-00067⁸ should be extended through June 30, 2016, to be funded with the balance of \$475,000 in funds not yet requested by the schools in the SEMP’s first two years. KU and LG&E should file an application with the Commission; (1) to extend the SEMP through June 30, 2018, at the funding levels approved in Case No. 2013-00067; and (2) for approval of a demand-side management (“DSM”) and energy efficiency (“EE”) program to provide \$1.0 million in grants to schools to fund EE projects.

- KU and LG&E will instruct the vendor for their industrial DSM–EE study to commence work immediately, and they will not seek DSM cost recovery of the cost of the study. The study will be completed by May 1, 2016, and will be filed with the Commission 30 days later in accordance with the final order in Case No. 2014-00003.⁹ Thereafter, KU and LG&E commit that they will begin the DSM Advisory Group meeting process to discuss the results of the study. KU and LG&E also commit to address opt-out criteria for industrial customers, as well as the definition of “industrial” in their first DSM/EE application following completion of the industrial DSM/EE study.

- Except as modified in the Stipulation and the exhibits attached thereto, the rates, terms and conditions proposed in KU’s Application should be approved as filed.

⁸ Case No. 2013-00067, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for the Review and Approval of a Two-Year Demand Side Program Related to School Energy Management and Associated Cost Recovery* (Ky. PSC Apr. 30, 2013).

⁹ Case No. 2014-00003, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Review, Modification, and Continuation of Existing, and Addition of New, Demand-Side Management and Energy-Efficiency Programs* (Ky. PSC Nov. 14, 2014).

ANALYSIS AND FINDINGS ON SETTLEMENT

The Commission's statutory obligation when reviewing a rate application is to determine whether the proposed rates are "fair, just and reasonable."¹⁰ While numerous intervenors with significant experience in rate proceedings and collectively representing a diverse range of customer interests have participated in this case, the Commission cannot defer to the parties as to what constitutes "fair, just and reasonable" rates. The Commission must review the record, including the Settlement, and apply its expertise to make an independent decision as to the level of rates (including terms and conditions of service) that should be approved.

To satisfy its statutory obligation in this case, the Commission has performed its traditional ratemaking analysis, which consists of reviewing the reasonableness of each revenue and expense adjustment proposed or justified by the record, along with a determination of a fair ROE. Based on the Commission's analysis of KU's revenues and expenses, as well as a determination of a reasonable ROE range for KU, we conclude that the provisions in the Settlement will produce a revenue requirement and increase in base rates consistent with those justified by our traditional ratemaking analysis.

¹⁰ KRS 278.030(1).

OTHER ISSUES

Industrial DSM Study Issues

In Case No. 2011-00375,¹¹ we directed KU and LG&E to commission an EE potential study. KU and LG&E, nonetheless, took it upon themselves to not examine EE usage in the industrial class of customers, which constitutes 30 percent of their load.

Once this omission was brought to our attention during KU's and LG&E's most recent DSM case,¹² the Commission held that KRS 278.285(3) does not provide for a categorical industrial opt-out of utility-offered DSM or EE programs targeted at industrial customers.¹³ Further, the Commission stated that that the statute employs a two-part analysis before an industrial customer may opt out: first, the industrial customer must be an energy-intensive customer; second, the energy-intensive customer must have adopted cost-effective EE measures. We then expressly directed KU and LG&E to "commission an industrial potential or market characterization study."

In the case at bar, we learned that the industrial DSM/EE study, although "commissioned," had not yet begun. Furthermore, a review of KU's responses to discovery requests in this case reveals that the number of industrial customers provided to the Commission in Case No. 2014-00003 was not accurate for DSM purposes.¹⁴

¹¹ Case No. 2011-00375, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity and Site Compatibility Certificate for the Construction of a Combined Cycle Combustion Turbine at the Cane Run Generating Station and the Purchase of Existing Simple Cycle Combustion Turbine Facilities from Bluegrass Generation Company, LLC, in LaGrange, Kentucky* (Ky. PSC May 3, 2012).

¹² Case No. 2014-00003, *Louisville Gas and Electric Company and Kentucky Utilities Company* (filed Jan. 17, 2014).

¹³ *Id.* (Ky. PSC Nov. 14, 2014), Order at 27-30.

¹⁴ See Attachment to KU's March 27, 2015 Supplemental Response to Commission Staff's Third Request for Information, Item 15.

The Settlement provision with respect to the industrial DSM/EE study seems to have cured KU's and LG&E's previous failings on this issue as follows:

1. KU and LG&E will immediately instruct their vendor to commence work on this study.
2. KU and LG&E will not seek cost recovery for same.
3. The study will be completed by May 1, 2016, and filed with the Commission by May 31, 2016.
4. Thereafter the DSM Advisory Group will begin meeting to discuss the results of the study.
5. No later than the filing of the first DSM/EE application after completion of the industrial DSM/EE potential study, KU and LG&E will set forth a proposed definition of the term "industrial" as that term is used in KRS 278.285(3) and develop criteria which will be used to determine whether an industrial customer qualifies for the DSM exemption under KRS 278.285(3).

In addition to the above items, which are approved herein as part of the Settlement, the Commission, with this Order, directs that KIUC be given the opportunity to participate as a member of the KU/LG&E DSM Advisory Group. KU and LG&E shall further use their best efforts to secure the participation of small- or medium-sized industrial customers in the DSM Advisory Group.

Once the DSM Advisory Group begins meeting to examine the definition of "industrial" and the criterion for industrial customers to opt out, KU and LG&E should file with the Commission monthly status reports on the DSM Advisory Group's work pending the first DSM/EE application after completion of the DSM/EE potential study.

Low Emission Vehicle Tariff Deletion

KU proposed in its application to delete its Low Emission Vehicle (“LEV”) tariff. As noted previously, this tariff deletion is included as part of the Settlement. In its application, KU stated that it would “make all reasonable efforts to contact Rate LEV customers to advise them of their new rate options after the Commission approves the new rates but before they take effect (at which time Rate LEV will terminate).”¹⁵ For those customers who do not inform KU which rate schedule they would like to take service under, KU proposed to automatically transfer those customers to its proposed Residential Time-of-Day – Energy (“RTOD–Energy”) tariff.

During discovery in this proceeding, it was determined that some LEV customers would receive a lesser percentage rate increase by being transferred to KU’s standard Residential Service tariff rather than to the RTOD–Energy tariff. At the hearing in this matter, KU stated that it would provide information to LEV customers that would include the customer’s load profile and tariff options, and the impact of selecting each option.¹⁶ When asked whether KU would be agreeable to transferring customers who do not make a choice to the residential tariff that would result in the lesser percentage increase, KU stated that it would transfer those customers to their lowest rate.¹⁷

Given that KU will not have time to inform LEV customers of their options between the date of this Order and the date the Settlement rates go into effect, the Commission finds that KU should transfer each LEV customer to the residential rate that will result in the least percentage increase based on the customer’s load profile. The

¹⁵ Application, Testimony of Robert M. Conroy, filed Nov. 26, 2014, at 27.

¹⁶ April 21, 2015 Hearing video at 11:58:59.

¹⁷ *Id.* at 12:01:00.

Commission also finds that KU should provide written information to each LEV customer of the tariff to which the customer has been transferred and provide LEV customers with their load profiles, tariff options, and the impact of selecting each option. This information should assist each former LEV customer in making an informed decision to either remain on the tariff that KU has determined to be appropriate or to transfer to a different tariff.

New Optional Residential Time-of-Day Tariffs

Included in KU's Application and the Settlement is the establishment of two new optional time-of-day residential tariffs, the RTOD–Energy previously mentioned, and a Residential Time-of-Day – Demand (“RTOD–Demand”) tariff. At the hearing in this matter, KU was asked how these new tariffs would be advertised to customers. In a post-hearing response,¹⁸ KU stated that, if the tariffs were approved, it would file with the Commission a copy of the information that would be provided to customers. The Commission finds that KU should file with the Commission its plans for advertising the RTOD–Energy and RTOD–Demand tariffs as well as a copy of the information that will be provided to customers.

ORDERING PARAGRAPHS

Based on the evidence of record and the findings contained herein, the Commission HEREBY ORDERS that:

1. The rates and charges proposed by KU are denied.
2. All provisions of the Settlement, which are set forth in Appendix A hereto (without exhibits), are approved.

¹⁸ The joint response of LG&E and KU to the Commission's Post-Hearing Data Request, Item 7.

3. The rates and charges for KU, as set forth in Appendix B hereto, are the fair, just and reasonable rates for KU, and these rates are approved for service rendered on and after July 1, 2015.

4. KU shall file monthly status reports with the Commission on the status of the work of the DSM Advisory Group concerning the industrial DSM issues discussed herein.

5. KU shall transfer each LEV customer to the residential rate that will result in the least percentage increase based on the customer's load profile. KU shall inform each LEV customer in writing of the tariff to which the customer has been transferred and provide LEV customers with their load profiles, tariff options, and the impact of selecting each option.

6. Within 30 days of the date of this Order, KU shall file with the Commission its plans for advertising the RTOD–Energy and RTOD–Demand tariffs to its residential customers and a copy of the information that will be provided to customers.

7. KU shall file within 20 days of the date of this Order, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and revisions approved herein and reflecting their effective date and that they were approved pursuant to this Order.

8. Any document filed pursuant to ordering paragraphs 4 and 6 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

By the Commission

ENTERED
JUN 30 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Stephanie Bell TD

Executive Director

Case No. 2014-00371

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00371 DATED **JUN 30 2015**

SETTLEMENT AGREEMENT, STIPULATION, AND RECOMMENDATION

This Settlement Agreement, Stipulation, and Recommendation (“Settlement Agreement”) is entered into this 20th day of April 2015 by and between Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (collectively, “the Utilities”); Association of Community Ministries, Inc. (“ACM”); Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (“AG”); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (“CAC”); United States Department of Defense and All Other Executive Agencies (“DoD”); Kentucky Cable Telecommunications Association (“KCTA”); Kentucky Industrial Utility Customers, Inc. (“KIUC”); The Kroger Co. (“Kroger”); Kentucky School Boards Association (“KSBA”); Lexington-Fayette Urban County Government (“LFUCG”); Metropolitan Housing Coalition (“MHC”); Sierra Club, Alice Howell, Carl Vogel and Wallace McMullen (collectively “Sierra Club”); and Wal-Mart Stores East, LP and Sam’s East, Inc. (collectively “Wal-Mart”). (Collectively, the Utilities, ACM, AG, CAC, DoD, KCTA, KIUC, Kroger, KSBA, LFUCG, MHC, Sierra Club and Wal-Mart are the “Parties.”)

W I T N E S S E T H:

WHEREAS, on November 26, 2014, KU filed with the Kentucky Public Service Commission (“Commission”) its Application for Authority to Adjust Electric Rates, *In the Matter of: An Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates*, and the Commission has established Case No. 2014-00371 to review KU’s base rate application, in which KU requested a revenue increase of \$153.4 million;

WHEREAS, on November 26, 2014, LG&E filed with the Commission its Application for Authority to Adjust Electric and Gas Rates, *In the Matter of: An Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates*, and the Commission

has established Case No. 2014-00372 to review LG&E's base rate application, in which LG&E requested a revenue increase for its electric operations of \$30.3 million and a revenue increase of \$14.3 million for its gas operations. (Case Nos. 2014-00371 and 2014-00372 are hereafter collectively referenced as the "Rate Proceedings");

WHEREAS, the Commission has granted full intervention in Case No. 2014-00371 to the AG, CAC, KCTA, KIUC, Kroger, KSBA, LFUCG, Sierra Club, and Wal-Mart;

WHEREAS, the Commission has granted full intervention in Case No. 2014-00372 to ACM, the AG, DoD, KCTA, KIUC, Kroger, KSBA, MHC, Sierra Club, and Wal-Mart;

WHEREAS, a prehearing informal conference for the purpose of discussing settlement, attended by representatives of the Parties and the Commission Staff took place on April 16 and 17, 2015, at the offices of the Commission, during which a number of procedural and substantive issues were discussed, including potential settlement of all issues pending before the Commission in the Rate Proceedings;

WHEREAS, a prehearing informal conference for the purpose of discussing the text of this Settlement Agreement, attended by representatives of the Parties and the Commission Staff took place on April 20, 2015, at the offices of the Commission;

WHEREAS, all of the Parties hereto unanimously desire to settle all the issues pending before the Commission in the Rate Proceedings;

WHEREAS, the adoption of this Settlement Agreement as a fair, just, and reasonable disposition of the issues in this case will eliminate the need for the Commission and the Parties to expend significant resources litigating these Rate Proceedings, and eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final order herein;

WHEREAS, it is understood by all Parties hereto that this Settlement Agreement is subject to the approval of the Commission, insofar as it constitutes an agreement by all Parties to the Rate Proceedings for settlement, and, absent express agreement stated herein, does not represent agreement on any specific claim, methodology, or theory supporting the appropriateness of any proposed or recommended adjustments to the Utilities' rates, terms, or conditions;

WHEREAS, the Parties have spent many hours over several days to reach the stipulations and agreements which form the basis of this Settlement Agreement;

WHEREAS, all of the Parties, who represent diverse interests and divergent viewpoints, agree that this Settlement Agreement, viewed in its entirety, is a fair, just, and reasonable resolution of all the issues in the Rate Proceedings; and

WHEREAS, the Parties believe sufficient and adequate data and information support this Settlement Agreement, and further believe the Commission should approve it;

NOW, THEREFORE, for and in consideration of the promises and conditions set forth herein, the Parties hereby stipulate and agree as follows:

ARTICLE I. REVENUE REQUIREMENTS

1.1. Utilities' Electric Revenue Requirements. The Parties stipulate that the following increases in annual revenues for LG&E electric operations and for KU operations, for purposes of determining the rates of LG&E and KU in the Rate Proceedings, are fair, just and reasonable for the Parties and for all electric customers of LG&E and KU:

LG&E Electric Operations: \$0.

KU Operations: \$125,000,000.

The Parties agree that any increase in annual revenues for LG&E electric operations and for KU operations should be effective for service rendered on and after July 1, 2015.

1.2. LG&E Gas Revenue Requirement. The Parties stipulate and agree that, effective for service rendered on and after July 1, 2015, an increase in annual revenues for LG&E gas operations of \$7,000,000, for purposes of determining the rates of LG&E gas operations in the Rate Proceedings, is fair, just and reasonable for the Parties and for all gas customers of LG&E.

1.3. Environmental Cost Recovery Mechanism Return on Equity. The Parties agree that, effective as of the expense month that includes July 1, 2015, the return on equity that shall apply to the Utilities' recovery under their environmental cost recovery ("ECR") mechanism is 10.00% for all environmental compliance plans.

1.4. Gas Line Tracker Return on Equity. The Parties agree that, effective as of July 1, 2015, the return on equity that shall apply to LG&E's Gas Line Tracker ("GLT") is 10.00%. Because the GLT is billed on a prospective basis and its charge is determined annually, for the period July 1, 2015, through and including December 31, 2015, the reduced GLT return on equity will be reflected in the GLT balancing adjustment for calendar year 2015, which adjustment will be included in GLT billings in 2016.

1.5. Green River Regulatory Asset and Amortization. The Parties hereto agree that the Commission should approve regulatory-asset treatment for the complete recovery of Green River Units 3 and 4 costs incurred during the forecast test year through the retirement of those units. The asset should be amortized over three years, beginning with the effective date of the new base rates resulting from these proceedings.

1.6. Pension Expense Regulatory Asset and Amortization. The Parties hereto agree that the Commission should approve regulatory-asset treatment for the difference between (1) the Utilities' pension expense booked according to its accounting policy on record with the Securities and Exchange Commission and in accordance with Generally Accepted Accounting Principles ("GAAP") and (2) pension expense with actuarial gains and losses amortized over 15 years.

1.7. Cane Run Unit 7 Depreciation. The Utilities will use the depreciation rates set forth in Exhibit JJS-1 of the Direct Testimony of John J. Spanos in the record in Case No. 2014-00371 and Exhibit JJS-1 of the Direct Testimony of John J. Spanos in the record in Case No. 2014-00372 which includes the assignment of a 40-year service life to the Cane Run Unit 7 for determining the unit's depreciation expense for ratemaking purposes when the facility goes on-line in 2015.

ARTICLE II. REVENUE ALLOCATION AND RATE DESIGN

2.1. Revenue Allocation. The Parties hereto agree that the allocations of the increases in annual revenues for KU and LG&E electric operations, and that the allocation of the increase in annual revenue for LG&E gas operations, as set forth on the allocation schedules designated Settlement Exhibit 1 (KU), Settlement Exhibit 2 (LG&E electric), and Settlement Exhibit 3 (LG&E gas) attached hereto, are fair, just, and reasonable for the Parties and for all customers of LG&E and KU.

2.2. Tariff Sheets. The Parties hereto agree that, effective July 1, 2015, the Utilities shall implement the electric and gas rates set forth on the tariff sheets in Settlement Exhibit 4 (KU), Settlement Exhibit 5 (LG&E electric), and Settlement Exhibit 6 (LG&E gas) attached hereto, which rates the Parties unanimously stipulate are fair, just, and reasonable, and should be approved by the Commission.

2.3. Basic Service Charges. The Parties agree that the existing monthly basic service charge amounts shall be continued:

LG&E and KU Rates RS and VFD:	\$10.75
LG&E Rates RGS and VFD:	\$13.50

All other basic service charges shall be the amounts proposed by the Utilities in their Applications and supporting exhibits in these proceedings. These basic service charges are reflected in the proposed tariff sheets attached hereto in Settlement Exhibits 4, 5, and 6.

2.4. Optional Residential Time-of-Day (“RTOD”) Rates. The Parties agree that the Utilities will add the months of April and October to the summer pricing periods set forth in their proposed RTOD-Demand and RTOD-Energy rate schedules. The Parties further agree that the following Basic Service Charge amount shall be implemented for RTOD-Demand and RTOD-Energy: \$10.75. These changes are reflected in the proposed tariff sheets attached hereto as Settlement Exhibits 4 and 5.

2.5. Curtailable Service Riders. The Parties agree that LG&E and KU will combine their current Curtailable Service Riders, CSR10 and CSR30, into a single rider CSR. The new rider CSR will be substantively identical to the Utilities’ current CSR10 tariff sheets, including the buy-through provision, except:

(A) CSR credits will be \$6.50 per kVA-month (primary) and \$6.40 per kVA-month (transmission).

(B) The Utilities’ notice to CSR customers for requesting or canceling a curtailment will be extended from 10 minutes to 60 minutes.

(C) Each Utility may request up to 100 hours of physical curtailment from CSR customers. A Utility may request physical curtailment only when (1) all of the Utilities’

available generating units have been dispatched or are being dispatched and (2) all off-system sales have been or are being curtailed.

(D) Each CSR customer will certify annually its ability to interrupt the load specified in its CSR contract.

These proposed tariff changes are shown in Settlement Exhibits 4 and 5 attached hereto.

2.6. Off-System Sales (“OSS”) Tracker. The Parties agree that the Utilities will remove from base-rate calculations all OSS margins and will implement an OSS tracker for each electric Utility. (The revenue-requirement increases stated in Article 1.1 above reflect the necessary removal of OSS margins.) The proposed OSS trackers will share OSS margins on a 75%-25% basis, with 75% of OSS margins being credited to customers through the Utilities’ Fuel Adjustment Clauses (“FAC”) and resulting FAC credits or charges. Calculations of the OSS margins credited to customers will be reviewed during the Commission’s six-month and two-year reviews of the Utilities’ FAC calculations pursuant to 807 KAR 5:056.

2.7. Pole Attachment Rates (Rate CTAC).

(A) The Parties agree that the Utilities will change their Rate CTAC charges for pole attachments to \$7.25 per attachment per year for both utilities, which proposed tariff changes are shown in Settlement Exhibits 4 and 5 attached hereto.

(B) The Parties commit that they will not challenge, through rate complaints or otherwise, the negotiated \$7.25 pole-attachment rate until the Utilities file their next base-rate applications. The Utilities commit to propose new Rate CTAC charges in their next base-rate proceedings to help ensure there is an adequate record in those proceedings for the Commission to adjudicate any disputes between the parties concerning the appropriate methodology for the Utilities to use to calculate Rate CTAC charges in the future.

(C) The Utilities further agree to meet with KCTA at the offices of the Commission to discuss methodological differences between the Utilities' and KCTA's approaches to calculating pole-attachment charges within 90 days of the date of the Commission's Order approving this Settlement Agreement. Commission Staff will attend the meetings. The Utilities and KCTA commit to work in good faith to resolve their methodological differences to arrive at an agreed methodology for the Utilities to use when proposing new Rate CTAC charges in their next base-rate applications, though the Parties recognize that even good-faith negotiations might not lead to such a result.

ARTICLE III. TREATMENT OF CERTAIN SPECIFIC ISSUES

3.1. School-Related Demand-Side Management Program Proposals.

(A) In Case No. 2013-00067, the Commission approved a two-year demand-side management and energy-efficiency ("DSM-EE") program, the School Energy Management Program ("SEMP"), to help fund energy management programs for schools affected by KRS 160.325. The annual levels of funding proposed and approved in that proceeding were \$500,000 for KU and \$225,000 for LG&E. To date, a total of \$975,000 has been requested for, and provided through, SEMP (\$815,000 for KU and \$160,000 for LG&E). The Parties agree the Commission should approve an extension of the current SEMP through June 30, 2016, to be funded with the remaining \$475,000 that was not requested during the first two SEMP program years, with \$410,000 of the funding for KU and \$65,000 for LG&E.

(B) The Utilities commit to file with the Commission an application proposing a two-year extension of SEMP (for July 1, 2016, through June 30, 2018). The total annual level of funding to be proposed is \$725,000; prior to filing the application, the Utilities will consult with KSBA to determine an appropriate allocation of the total annual funds between KU and

LG&E. In the same application, the Utilities will propose a DSM-EE program to provide \$1 million for grants to schools to fund energy-efficiency projects. With input from KSBA and other stakeholders, the Utilities commit to file the above-described application with the Commission no later than December 31, 2015.

3.2. Commitment to Evaluate Schools' Rates upon Request. The Utilities commit that, upon a KSBA member's request, the serving Utility will evaluate each of the member's schools to determine if the school is eligible to take service under a more favorable tariffed rate.

3.3. Industrial DSM-EE Matters.

(A) The Utilities commit to instruct the vendor for their industrial-DSM-EE-potential study to commence work on the study immediately, and will not seek DSM cost recovery of the study's cost. The Utilities further commit that the study will be completed by May 1, 2016, and filed with the Commission thirty days later in accordance with the Commission's final order in Case No. 2014-00003. Thereafter, Utilities commit that they will commence the DSM Advisory Group meeting process to discuss the results of the industrial study.

(B) The Utilities commit to address opt-out criteria for industrial customers, as well as the definition of "industrial," including whether the NAICS code should be used to define "industrial," in their first DSM-EE application following completion of their industrial-DSM-EE-potential study.

3.4. Low-Income Customer Support. The Utilities commit to contribute a total of \$1,150,000 of shareholder funds per year, which commitment will remain in effect until the effective date of new base rates for the Utilities following their next general base-rate cases.

(A) The total annual shareholder contribution from KU shall be as follows: \$100,000 for Wintercare and \$370,000 for HEA. CAC administers both programs.

(B) The total annual shareholder contribution from LG&E shall be as follows: \$500,000 to ACM for utility assistance and \$180,000 for HEA.

(C) KU agrees that up to 10% of its total contributions to CAC may be used for reasonable administrative expenses.

(D) LG&E agrees that up to 10% of its total contributions to ACM may be used for reasonable administrative expenses.

(E) None of the Utilities' shareholder contributions will be conditioned upon receiving matching funds from other sources.

3.5. Home Energy Assistance Program Authority. The Parties hereto agree that the authority for the Utilities' Home Energy Assistance ("HEA") Program most recently approved by the Commission in Case No. 2010-00204 should be made permanent and recommend the Commission make such authority permanent in the Commission's Order approving this Settlement Agreement. This change in the HEA's Program authority is reflected in the proposed tariff sheets attached hereto as Settlement Exhibits 4, 5, and 6.

3.6. Home Energy Assistance Charges. The Parties agree that the Utilities will continue their monthly residential meter charge (for gas and electric meters) for the Home Energy Assistance ("HEA") program at \$0.25 per meter, which shall remain effective until the effective date of new base rates for the Utilities following their next general base-rate cases. These changes are reflected in the proposed tariff sheets attached hereto as Settlement Exhibits 4, 5, and 6.

3.7. CAC-Related HEA Issues. KU commits to work with CAC on the HEA program terms to better serve low-income customers. This shall include regular meetings between KU and CAC to review the HEA fund balance, number of available slots, number of persons enrolled, and the wait list, in order to maximize the number of low-income customers served and to limit the amount of unspent surplus funds. KU commits to have its first meeting with CAC to begin this process of improved coordination within 60 days of the date of the Commission's Order approving this Settlement Agreement.

3.8. Commitments to Meet and Work with ACM to Address Certain Issues.

(A) LG&E commits to meet and work in good faith with ACM to discuss Winter Hardship Reconnection procedures, including identifying ways ACM could obtain authority to issue certificates of need for Winter Hardship Reconnections.

(B) LG&E also commits to meet and work in good faith with ACM to explore potential non-information-technology-based means, if any, of permitting third-party assistance payments to be used to pay only amounts owing on the non-deposit portions of assistance recipients' LG&E bills.

3.9. Extending Period for Paying Residential Deposits. The Parties agree that the Utilities will extend the period for a residential customer to pay in full any required deposit from the current four months to six months. These changes are reflected in the proposed tariff sheets attached hereto as Settlement Exhibits 4, 5, and 6.

3.10. The Parties agree that, except as modified in this Settlement Agreement and the exhibits attached hereto, the rates, terms, and conditions contained in the Utilities' filings in these Rate Proceedings shall be approved as filed.

ARTICLE IV. MISCELLANEOUS PROVISIONS

4.1. Except as specifically stated otherwise in this Settlement Agreement, entering into this Settlement Agreement shall not be deemed in any respect to constitute an admission by any of the Parties that any computation, formula, allegation, assertion or contention made by any other party in these Rate Proceedings is true or valid.

4.2. The Parties hereto agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein and request the Commission to approve the Settlement Agreement.

4.3. Following the execution of this Settlement Agreement, the Parties shall cause the Settlement Agreement to be filed with the Commission on or about April 20, 2015, together with a request to the Commission for consideration and approval of this Settlement Agreement for rates to become effective for service rendered on and after July 1, 2015.

4.4. Each of the Parties waives all cross-examination of the other Parties' witnesses unless the Commission disapproves this Settlement Agreement, and each party further stipulates and recommends that the Notice of Intent, Notice, Application, testimony, pleadings, and responses to data requests filed in the Rate Proceedings be admitted into the record. The Parties stipulate that after the date of this Settlement Agreement they will not otherwise contest the Utilities' proposals, as modified by this Settlement Agreement, in the hearing of the Rate Proceedings regarding the subject matter of the Settlement Agreement, and that they will refrain from cross-examination of the Utilities' witnesses during the hearing, except insofar as such cross-examination is in support of the Settlement Agreement.

4.5. This Settlement Agreement is subject to the acceptance of, and approval by, the Commission. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.

4.6. If the Commission issues an order adopting this Settlement Agreement in its entirety and without additional conditions, each of the Parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such order.

4.7. 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 from further consideration by the Commission and none of the Parties shall be bound by any of the provisions herein, provided that none of the Parties is precluded from advocating any position contained in this Settlement Agreement; (b) any of the Parties may request a hearing on any or all of the issues in the Proceedings; and (c) neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the Parties or be construed against any of the Parties.

4.8. If the Settlement Agreement is voided or vacated for any reason after the Commission has approved the Settlement Agreement, none of the Parties will be bound by the Settlement Agreement.

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

4.10. The Settlement Agreement shall inure to the benefit of and be binding upon the Parties hereto and their successors and assigns.

4.11. The Settlement Agreement constitutes the complete agreement and understanding among the Parties, 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 the Settlement Agreement.

4.12. The Parties hereto agree that, for the purpose of the Settlement Agreement only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

4.13. The Parties hereto agree that 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 terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

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

4.15. The Parties hereto agree that this Settlement Agreement is a product of negotiation among all Parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party. 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 the Utilities are unknown and this Settlement Agreement shall be implemented as written.

4.16. The Parties hereto agree that this Settlement Agreement may be executed in multiple counterparts.

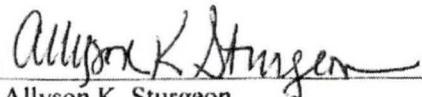
IN WITNESS WHEREOF, the Parties have hereunto affixed their signatures.

Kentucky Utilities Company and
Louisville Gas and Electric Company

HAVE SEEN AND AGREED:

By: 
Kendrick R. Riggs

-and-

By: 
Allyson K. Sturgeon

Attorney General for the Commonwealth of
Kentucky, by and through the Office of Rate
Intervention

HAVE SEEN AND AGREED:

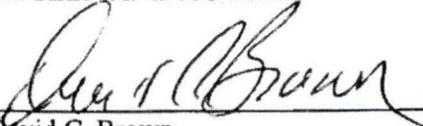
By: Gregory T. Dutton

Gregory T. Dutton
Lawrence W. Cook
Angela M. Goad
Stefanie J. Kingsley

The Kroger Co.

HAVE SEEN AND AGREED:

By:



David C. Brown

Kentucky School Boards Association

HAVE SEEN AND AGREED:

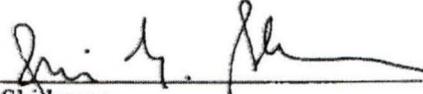
By: Matthew Malone

Matthew R. Malone,
William H. May, II

Community Action Council for
Lexington-Fayette, Bourbon, Harrison
and Nicholas Counties, Inc.

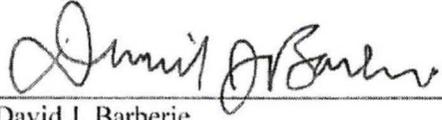
HAVE SEEN AND AGREED:

By: _____


Iris G. Skidmore

Lexington-Fayette Urban County Government

HAVE SEEN AND AGREED:

By: 

David J. Barberie

Andrea C. Brown

Janet M. Graham

Subject to ratification
by Urban County Council

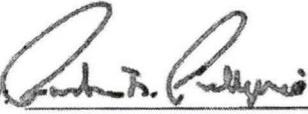
Association of Community Ministries, Inc.

HAVE SEEN AND AGREED:

By: *Lisa Kilkelly*
Lisa Kilkelly
Eileen Ordovery

Kentucky Cable Telecommunications
Association

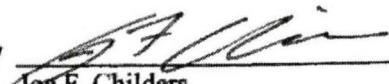
HAVE SEEN AND AGREED:

By  _____

Lawrence J. Zielke
Janice M. Theriot
Gardner F. Gillespie
Amanda M. Lanham
Stephen Gilson

Sierra Club, Alice Howell, Carl Vogel and
Wallace McMullen

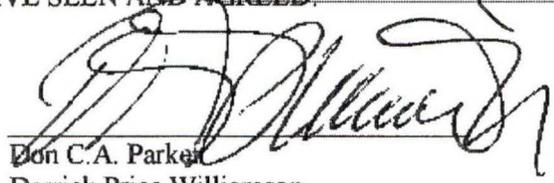
HAVE SEEN AND AGREED:

By 
Joe F. Childers
Laurie Williams
Casey Roberts
Joshua Smith

Wal-Mart Stores East, LP and Sam's East,
Inc.

HAVE SEEN AND AGREED: _____

By

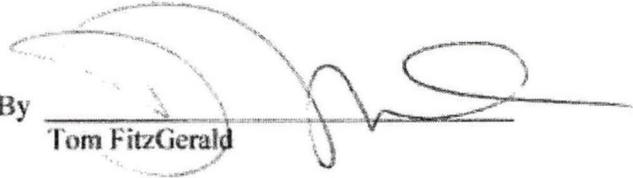
A handwritten signature in black ink, appearing to read "Don C.A. Parker", written over a horizontal line.

Don C.A. Parker
Derrick Price Williamson

Metropolitan Housing Coalition

HAVE SEEN AND AGREED:

By



Tom Fitzgerald

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00371 DATED **JUN 30 2015**

The following rates and charges are prescribed for the customers in the area served by Kentucky Utilities Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE RS RESIDENTIAL SERVICE

Basic Service Charge per Month	\$10.75
Energy Charge per kWh	\$.08508

SCHEDULE RTOD-ENERGY RESIDENTIAL TIME-OF-DAY ENERGY SERVICE

Basic Service Charge per Month	\$10.75
Energy Charge per kWh	
Off Peak Hours	\$.05378
On Peak Hours	\$.27284

SCHEDULE RTOD-DEMAND RESIDENTIAL TIME-OF-DAY DEMAND SERVICE

Basic Service Charge per Month	\$10.75
Energy Charge per kWh	\$ 0.04008
Demand Charge per kW	
Off Peak Hours	\$ 3.70
On Peak Hours	\$13.05

SCHEDULE VFD VOLUNTEER FIRE DEPARTMENT

Basic Service Charge per Month	\$10.75
Energy Charge per kWh	\$.08508

SCHEDULE GS
GENERAL SERVICE RATE

Basic Service Charge per Month – Single Phase	\$25.00
Basic Service Charge per Month – Three Phase	\$40.00
Energy Charge per kWh	\$.09874

SCHEDULE AES
ALL ELECTRIC SCHOOL

Basic Service Charge per Month – Single Phase	\$25.00
Basic Service Charge per Month – Three Phase	\$40.00
Energy Charge per kWh	\$.08094

SCHEDULE PS
POWER SERVICE

Secondary Service:

Basic Service Charge per Month	\$90.00
Demand Charge per kW:	
Summer Rate	\$17.55
Winter Rate	\$15.45
Energy Charge per kWh	\$.03572

Primary Service:

Basic Service Charge per Month	\$200.00
Demand Charge per kW:	
Summer Rate	\$ 18.01
Winter Rate	\$ 15.91
Energy Charge per kWh	\$.03446

SCHEDULE TODS
TIME-OF-DAY SECONDARY SERVICE

Basic Service Charge per Month	\$200.00
Maximum Load Charge per kW:	
Peak Demand Period	\$ 5.75
Intermediate Demand Period	\$ 4.15
Base Demand Period	\$ 4.82
Energy Charge per kWh	\$.03527

SCHEDULE TODP
TIME-OF-DAY PRIMARY SERVICE

Basic Service Charge per Month	\$ 300.00
Maximum Load Charge per kVA:	
Peak Demand Period	\$ 5.59
Intermediate Demand Period	\$ 4.09
Base Demand Period	\$ 3.04
Energy Charge per kWh	\$.03432

SCHEDULE RTS
RETAIL TRANSMISSION SERVICE

Basic Service Charge per Month	\$1,000.00
Maximum Load Charge per kVA:	
Peak Demand Period	\$ 4.47
Intermediate Demand Period	\$ 4.37
Base Demand Period	\$ 2.84
Energy Charge per kWh	\$.03357

SCHEDULE FLS
FLUCTUATING LOAD SERVICE

Primary:

Basic Service Charge per Month	\$1,000.00
Maximum Load Charge per kVA:	
Peak Demand Period	\$ 2.86
Intermediate Demand Period	\$ 1.97
Base Demand Period	\$ 2.02
Energy Charge per kWh	\$.03643

Transmission:

Basic Service Charge per Month	\$1,000.00
Maximum Load Charge per kVA:	
Peak Demand Period	\$ 2.86
Intermediate Demand Period	\$ 1.97
Base Demand Period	\$ 1.27
Energy Charge per kWh	\$.03344

SCHEDULE LS
LIGHTING SERVICE

Rate per Light per Month: (Lumens Approximate)

Overhead:

	<u>Fixture Only</u>	<u>Ornamental</u>
<u>High Pressure Sodium:</u>		
5,800 Lumens – Cobra Head	\$ 9.38	\$ 12.56
9,500 Lumens – Cobra Head	\$ 9.90	\$ 13.32
22,000 Lumens – Cobra Head	\$ 15.43	\$ 18.85
50,000 Lumens – Cobra Head	\$ 24.73	\$ 26.49
9,500 Lumens – Directional		\$ 9.75
22,000 Lumens – Directional	\$14.77	
50,000 Lumens – Directional	\$21.07	
9,500 Lumens – Open Bottom	\$ 8.49	

Metal Halide

12,000 Lumens – Directional	\$ 15.43
32,000 Lumens – Directional	\$ 21.87
107,800 Lumens – Directional	\$ 45.86

Underground:

	<u>Fixture Only</u>	<u>Decorative Smooth</u>	<u>Historic Fluted</u>
<u>High Pressure Sodium:</u>			
5,800 Lumens – Colonial		\$ 11.66	
9,500 Lumens – Colonial		\$ 12.08	
5,800 Lumens – Acorn		\$ 16.09	\$ 23.15
9,500 Lumens – Acorn		\$ 16.63	\$ 23.82
5,800 Lumens – Victorian			\$ 33.39
9,500 Lumens – Victorian			\$ 33.81
5,800 Lumens – Contemporary	\$ 16.64	\$ 18.18	
9,500 Lumens – Contemporary	\$ 16.62	\$ 22.71	
22,000 Lumens – Contemporary	\$ 19.19	\$ 29.08	
50,000 Lumens – Contemporary	\$ 23.27	\$ 35.86	
4,000 Lumens – Dark Sky Lantern		\$ 24.35	
9,500 Lumens – Dark Sky Lantern		\$ 25.45	

Metal Halide

12,000 Lumens – Contemporary	\$ 16.75	\$ 30.72
32,000 Lumens – Contemporary	\$ 23.75	\$ 37.71
107,800 Lumens – Contemporary	\$ 49.48	\$ 63.44

SCHEDULE RLS
RESTRICTED LIGHTING SERVICE

Overhead:

	<u>Fixture Only</u>	<u>Fixture and Pole</u>
<u>High Pressure Sodium:</u>		
4,000 Lumens – Cobra Head	\$ 8.16	\$ 11.36
50,000 Lumens – Cobra Head	\$12.68	
5,800 Lumens – Open Bottom	\$ 8.06	

Metal Halide

12,000 Lumens – Directional		\$ 20.19
32,000 Lumens – Directional		\$ 26.63
107,800 Lumens – Directional		\$ 50.61

Mercury Vapor:

7,000 Lumens – Cobra Head	\$ 10.35	\$ 12.85
10,000 Lumens – Cobra Head	\$ 12.26	\$ 14.47
20,000 Lumens – Cobra Head	\$ 13.87	\$ 16.33
7,000 Lumens – Open Bottom	\$ 11.45	

Incandescent:

1,000 Lumens – Tear Drop	\$ 3.67	
2,500 Lumens – Tear Drop	\$ 4.92	
4,000 Lumens – Tear Drop	\$ 7.34	\$ 8.38
6,000 Lumens – Tear Drop	\$ 9.81	

Underground:

	<u>Decorative Smooth</u>	<u>Historic Fluted</u>
<u>Metal Halide</u>		
12,000 Lumens – Directional	\$ 29.40	
32,000 Lumens – Directional	\$ 35.84	
107,800 Lumens – Directional	\$ 59.82	

High Pressure Sodium:

4,000 Lumens – Acorn	\$ 14.74	\$ 21.94
4,000 Lumens – Colonial	\$ 10.42	
5,800 Lumens – Coach	\$ 33.39	
9,500 Lumens – Coach	\$ 33.81	
16,000 Lumens – Granville	\$ 59.91	

SCHEDULE LE
LIGHTING ENERGY SERVICE

Energy Charge per kWh	\$.06912
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SCHEDULE TE
TRAFFIC ENERGY SERVICE

Basic Service Charge per Month	\$4.00
Energy Charge per kWh	\$.08324

SCHEDULE CTAC
CABLE TELEVISION ATTACHMENT CHARGES

Per Year for Each Attachment to Pole	\$ 7.25
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RATE CSR
CURTAILABLE SERVICE RIDER

	<u>Transmission</u>	<u>Primary</u>
Demand Credit per kVA	\$ 6.40	\$ 6.50
Non-compliance Charge Per kVA	\$ 16.00	\$ 16.00

RC
REDUNDANT CAPACITY

Charge per kW/kVA per month	
Secondary Distribution	\$ 1.12
Primary Distribution	\$ 1.11

SS
SUPPLEMENTAL OR STANDBY SERVICE

Charge per kW/kVA per month		
Secondary	\$	12.84
Primary	\$	11.63
Transmission	\$	10.58

CUSTOMER DEPOSITS

Residential Customers	\$	160.00
General Service Customers	\$	240.00

HEA
HOME ENERGY ASSISTANCE PROGRAM

Per Month per Meter	\$.25
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