Kentucky Utilities Company

Adjustment Clause

Demand-Side Management Cost Recovery Mechanism

APPLICABLE
In all territory served.

AVAILABILITY OF SERVICE
This schedule is mandatory to Residential Service Rate RS, Residential Time-of-Day Energy Rate RTOD-Energy, Residential Time-of-Day Demand Rate RTOD-Demand, Volunteer Fire Department Service Rate VFD, General Service Rate GS, All Electric School Rate AES, Power Service Rate PS, Time-of-Day Secondary Service Rate TODS, Time-of-Day Primary Service Rate TODP, Retail Transmission Service Rate RTS, School Power Service Rate SPS, School Time-of-Day Service Rate STOD, and Outdoor Sports Lighting Service Rate OSL. Industrial customers who elect not to participate in a demand-side management program hereunder shall not be assessed a charge pursuant to this mechanism. For purposes of rate application hereunder, non-residential customers will be considered “industrial” if they are primarily engaged in a process or processes that create or change raw or unfinished materials into another form or product, and/or in accordance with the North American Industry Classification System, Sections 21, 22, 31, 32, and 33. All other non-residential customers will be defined as “commercial.”

RATE
The monthly amount computed under each of the rate schedules to which this Demand-Side Management Cost Recovery Mechanism is applicable shall be increased or decreased by the DSM Cost Recovery Component (DSMRC) at a rate per kilowatt hour of monthly consumption in accordance with the following formula:

\[ DSMRC = DCR + DRLS + DSMI + DBA + DCCR \]

Where:

**DCR = DSM COST RECOVERY**

The DCR shall include all expected costs that have been approved by the Commission for each twelve-month period for demand-side management programs that have been developed through a collaborative advisory process ("approved programs"). Such program costs shall include the cost of planning, developing, implementing, monitoring, and evaluating DSM programs. Program costs will be assigned for recovery purposes to the rate classes whose customers are directly participating in the program. In addition, all costs incurred by or on behalf of the collaborative process, including but not limited to costs for consultants, employees, and administrative expenses, will be recovered through the DCR. Administrative costs that are allocable to more than one rate class will be recovered from those classes and allocated by rate class on the basis of the estimated budget from each program. The cost of approved programs shall be divided by the expected kilowatt-hour sales for the upcoming twelve-month period to determine the DCR for each such rate class.

**DRLS = DSM REVENUE FROM LOST SALES**

Revenues from lost sales due to DSM programs implemented on and after the effective date of this tariff will be recovered as follows:

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Kentucky Utilities Company

Adjustment Clause

Demand-Side Management Cost Recovery Mechanism

RATE (continued)

1) For each upcoming twelve-month period, the estimated reduction in customer usage (in kWh) as determined for the approved programs shall be multiplied by the non-variable revenue requirement per kWh for purposes of determining the lost revenue to be recovered hereunder from each customer class. The non-variable revenue requirement for the Residential, Residential Time-of-Day Energy Service, Volunteer Fire Department, General Service, and All Electric School customer classes is defined as the weighted average price per kWh of expected billings under the energy charges contained in the RS, RTOD-Energy, VFD, GS, and AES rate schedules in the upcoming twelve-month period after deducting the variable costs included in such energy charges. The non-variable revenue requirement for each of the customer classes that are billed under demand and energy rates (rate schedules RTOD-Demand, PS, TOD, TODP, RTS, SPS, STOD, and OSL) is defined as the weighted average price per kWh represented by the composite of the expected billings under the respective demand and energy charges in the upcoming twelve-month period, after deducting the variable costs included in the energy charges.

2) The lost revenues for each customer class shall then be divided by the estimated class sales (in kWh) for the upcoming twelve-month period to determine the applicable DRLS surcharge. Recovery of revenue from lost sales calculated for a twelve-month period shall be included in the DRLS for 36 months or until implementation of new rates pursuant to a general rate case, whichever comes first. Revenues from lost sales will be assigned for recovery purposes to the rate classes whose programs resulted in the lost sales.

Revenues collected hereunder are based on engineering estimates of energy savings, expected program participation, and estimated sales for the upcoming twelve-month period. At the end of each such period, any difference between the lost revenues actually collected hereunder and the lost revenues determined after any revisions of the engineering estimates and actual program participation are accounted for shall be reconciled in future billings under the DSM Balance Adjustment (DBA) component.

A program evaluation vendor will be selected to provide evaluation criteria against which energy savings will be estimated for that program. Each program will be evaluated after implementation and any revision of the original engineering estimates will be reflected in both (a) the retroactive true-up provided for under the DSM Balance Adjustment and (b) the prospective future lost revenues collected hereunder.

\[ DSMI = DSM INCENTIVE \]

For all Energy Impact Programs except Direct Load Control, the DSM incentive amount shall be computed by multiplying the net resource savings expected from the approved

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programs that are to be installed during the upcoming twelve-month period times fifteen (15) percent, not to exceed five (5) percent of program expenditures. Net resource savings are defined as program benefits less utility program costs and participant costs where program benefits will be calculated on the basis of the present value of Company’s avoided costs over the expected life of the program, and will include both capacity and energy savings. For the Energy Education Program, the DSM incentive amount shall be computed by multiplying the annual cost of the approved program times five (5) percent.

The DSM incentive amount related to programs for Residential Service Rate RS, Residential Time-of-Day Energy Service Rate RTOD-Energy, Residential Time-of-Day Demand Service Rate RTOD-Demand, Volunteer Fire Department Rate VFD, General Service Rate GS, All Electric School Rate AES, Power Service Rate PS, Time-of-day Secondary Service Rate TODS, Time-of-Day Primary Service Rate TOOP, Retail Transmission Service Rate RTS, School Power Service Rate SPS, School Time-of-Day Service Rate STOD, and Outdoor Sports Lighting Service Rate OSL shall be divided by the expected kilowatt-hour sales for the upcoming twelve-month period to determine the DSMI for such rate class. DSM incentive amounts will be assigned for recovery purposes to the rate classes whose programs created the incentive.

**DBA = DSM BALANCE ADJUSTMENT**

The DBA shall be calculated on a calendar-year basis and is used to reconcile the difference between the amount of revenues actually billed through the DCR, DRLS, DSMI, DCCR, and previous application of the DBA and the revenues that should have been billed, as follows:

1) For the DCR, the balance adjustment amount will be the difference between the amount billed in a twelve-month period from the application of the DCR unit charge and the actual cost of the approved programs during the same twelve-month period.

2) For the DRLS the balance adjustment amount will be the difference between the amount billed during the twelve-month period from application of the DRLS unit charge and the amount of lost revenues determined for the actual DSM measures implemented during the twelve-month period.

3) For the DSMI, the balance adjustment amount will be the difference between the amount billed during the twelve-month period from application of the DSMI unit charge and the incentive amount determined for the actual DSM measures implemented during the twelve-month period.

4) For the DBA, the balance adjustment amount will be the difference between the amount billed during the twelve-month period from application of the DBA and the balance adjustment amount established for the same twelve-month period.
Kentucky Utilities Company

P.S.C. No. 18, Original Sheet No. 86.6

Adjustment Clause

Demand-Side Management Cost Recovery Mechanism

Residential Advanced Metering Systems Incentives:
The following Demand Side Management offering is available to residential customers receiving
service from the Company on the RS Rate Schedule.

Advanced Metering Systems
The Advanced Metering Systems offering is designed to provide energy consumption data to
customers on a more frequent basis than is traditionally available through monthly billing. The
Program employs advanced meters to communicate hourly consumption data to customers
through a website.

Commercial Customer Program Participation Incentives:
The following Demand Side Management programs are available to commercial customers
receiving service from the Company on the GS, AES, PS, TODS, TODP, RTS, SPS, STOD, and
OSL Standard Electric Rate Schedules.

Commercial Load Management / Demand Conservation
The Commercial Load Management / Demand Conservation Program employ switches or
interfaces to customer equipment, in small and large commercial businesses to help reduce
the demand for electricity during peak times. The Program communicates with the switches or
interface to cycle equipment. This program has an approved flexible incentive structure. The
current program offering is defined on Sheet No 86.8.

Commercial Conservation / Commercial Incentives
The Commercial Conservation / Commercial Incentive Program is designed to increase the
implementation of energy efficiency measures by providing financial incentives to assist with
the replacement of aging and less efficient equipment and for new construction built beyond
code requirements. The Program also offers an online tool providing recommendations for
energy-efficiency improvements. Incentives available to all commercial customers are based
upon a $100 per kW removed for calculated efficiency improvements. A prescriptive list
provides customers with incentive values for various efficiency improvement projects.
Additionally, a custom rebate is available based upon company engineering validation of
sustainable kW removed. New construction rebates are available on savings over code plus
bonus rebates for LEED certification.

- Maximum annual incentive per facility is $50,000
- Customers can receive multi-year incentives in a single year where such multi-year
  incentives do not exceed the aggregate of $100,000 per facility and no incentive
  was provided in the immediately preceding year
- Applicable for combined Prescriptive, Custom and New Construction Rebates

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Current Program Incentive Structures

Residential Load Management / Demand Conservation

**Switch Option:**
- $5/month bill credit for June, July, August, and September per air conditioning unit or heat pump on single family home.
- $2/month bill credit for June, July, August, and September per electric water heater (40 gallon minimum) or swimming pool pump on single family home.
- If new customer registers by December 31, 2017, then a $25 gift card per air-conditioning unit or heat pump, water-heater (40 gallon minimum) and/or swimming pool pump switch installed.
  - Customers in a tenant-landlord relationship will receive the entire $25 new customer incentive.

**Multi-family Option:**
- Tenant - $2/month bill credit per customer for June, July, August, and September per air conditioning unit, heat pump, or electric water heater (40 gallon minimum).
- Entire Complex Enrollment – Property owner receives $2/month incentive per air conditioning or heat pump switch to the premise owner for June, July, August, and September.
- If new customer registers by December 31, 2017, then a $25 gift card per air-conditioning unit or heat pump installed, where:
  - Customers in a tenant/property owner relationship where the entire complex participates, the property owner will receive a $25 bonus incentive per air conditioning unit, heat pump, or water heater (40 gallon minimum).
  - Customers in a tenant-landlord relationship where only a portion of the complex participates, the tenant will receive a $25 gift card new customer incentive.

Residential Refrigerator Removal Program
The program provides $50 per working refrigerator or freezer.
## Demand-Side Management Cost Recovery Mechanism

### Monthly Adjustment Factors

<table>
<thead>
<tr>
<th>Service Rate</th>
<th>DSM Cost Recovery Component (DCR)</th>
<th>DSM Revenues from Lost Sales (DRLS)</th>
<th>DSM Incentive (DSMI)</th>
<th>DSM Capital Cost Recovery Component (DCCR)</th>
<th>DSM Balance Adjustment (DBA)</th>
<th>Total DSMRC for Rates (DCR, DRLS, DSMI, DCCR, and DBA)</th>
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</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$0.00183 per kWh</td>
<td>$0.00000 per kWh</td>
<td>$0.00003 per kWh</td>
<td>$0.00010 per kWh</td>
<td>$(0.00009) per kWh</td>
<td>$0.00195 per kWh</td>
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<td>RTOD-Energy</td>
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<td>RTOD-Demand</td>
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<td>$0.00000 per kWh</td>
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<tr>
<td>VFD Energy</td>
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<td>GS Energy</td>
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<td>AES Energy</td>
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<td>$0.00001 per kWh</td>
<td>$0.00058 per kWh</td>
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<td>$0.00088 per kWh</td>
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<td>PS Energy</td>
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<td>$0.00025 per kWh</td>
<td></td>
<td>$0.00055 per kWh</td>
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<tr>
<td>TODS Energy</td>
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<td>$0.00025 per kWh</td>
<td></td>
<td>$0.00055 per kWh</td>
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<tr>
<td>TODP Energy</td>
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<tr>
<td>RTS Energy</td>
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<td>$0.00025 per kWh</td>
<td></td>
<td>$0.00055 per kWh</td>
</tr>
</tbody>
</table>

* These charges do not apply to industrial customers taking service under these rates because the Company currently does not offer industrial DSM programs.

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Adjustment Clause

Environmental Cost Recovery Surcharge

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

This schedule is mandatory to all Standard Electric Rate Schedules listed in Section 1 of the General Index except PSA and Special Charges, all Pilot Programs listed in Section 3 of the General Index, and the FAC (including the Off-System Sales Tracker) and DSM Adjustment Clauses. Standard Electric Rate Schedules subject to this schedule are divided into Group 1 or Group 2 as follows:

Group 1: Rate Schedules RS; RTOD-Energy; RTOD-Demand; VFD; AES; LS; RLS; LE; and TE.
Group 2: Rate Schedules GS; PS; TODS; TODP; RTS; FLS; EVSE; EVC; SPS; STOD; and OSL.

RATE

The monthly billing amount under each of the schedules to which this mechanism is applicable, shall be increased or decreased by a percentage factor calculated in accordance with the following formula.

\[ \text{Group Environmental Surcharge Billing Factor} = \frac{\text{Group } E(m)}{\text{Group } R(m)} \]

As set forth below, Group E(m) is the sum of Jurisdictional E(m) of each approved environmental compliance plan revenue requirement of environmental compliance costs for the current expense month allocated to each of Group 1 and Group 2. Group R(m) for Group 1 is the 12-month average revenue for the current expense month and for Group 2 it is the 12-month average non-fuel revenue for the current expense month.

DEFINITIONS

1) For all Plans, \( E(m) = \frac{\text{(RB/12)} + (\text{ROR}) (\text{DR} (1 – \text{TR})) + \text{OE} – \text{EAS} + \text{BR}}{\text{TR}} \)
   a) RB is the Total Environmental Compliance Rate Base.
   b) ROR is the Rate of Return on Environmental Compliance Rate Base, designated as the overall rate of return [cost of short-term debt, long-term debt, preferred stock, and common equity].
   c) DR is the Debt Rate [cost of short-term debt, and long-term debt].
   d) TR is the Composite Federal and State Income Tax Rate.
   e) OE is the Operating Expenses. OE includes operation and maintenance expense recovery authorized by the K.P.S.C. in all approved ECR Plan proceedings.
   f) EAS is the total proceeds from emission allowance sales.
   g) BR is the operation and maintenance expenses, and/or revenues if applicable, associated with Beneficial Reuse.
   h) Plans are the environmental surcharge compliance plans submitted to and approved by the Kentucky Public Service Commission pursuant to KRS 278.183.

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Kentucky Utilities Company

Adjustment Clause

Home Energy Assistance Program

APPLICABLE
In all territory served.

AVAILABILITY
To all residential customers.

RATE
$0.30 per month.

BILLING
The HEA charge shall be shown as a separate item on customer bills.

PURPOSE
Proceeds from this charge will be used to fund residential low-income demand-side management Home Energy Assistance programs which have been designed through a collaborative advisory process and then filed with, and approved by, the Commission.

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