

Louisville Gas and Electric Company

P.S.C. Electric No. 9, Original Sheet No. 86

Adjustment Clause **DSM**
Demand-Side Management Cost Recovery Mechanism

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

This schedule is mandatory to Residential Rate RS, Volunteer Fire Department Rate VFD, General Service Rate GS, Power Service Rate PS, Time-of-Day Secondary Service Rate TODS, Industrial Time-of-Day Primary Service Rate ITODP, Commercial Time-of-Day Primary Service Rate CTODP, Retail Transmission Service Rate RTS, and Low Emission Vehicle Service Rate LEV. 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."

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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:

- 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, Volunteer Fire Department, General Service, and LEV customer classes is defined as the weighted average price per kWh of expected

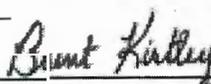
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Lonnie E. Biellar

KENTUCKY PUBLIC SERVICE COMMISSION JEFF B. DEBOLEN EXECUTIVE DIRECTOR TARIFF BRANCH	T T
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Louisville Gas and Electric Company

P.S.C. Electric No. 9, Original Sheet No. 86.1

Adjustment Clause

DSM

Demand-Side Management Cost Recovery Mechanism

RATE (continued)

billings under the energy charges contained in the RS, VFD, GS, and LEV 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 PS, TODS, ITODP and CTODP) 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.

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- 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 thirty-six (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 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.

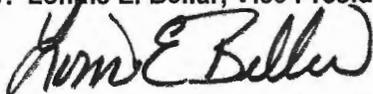
The DSM incentive amount related to programs for Residential Rate RS, Volunteer Fire Department Rate VFD, General Service Rate GS, Power Service Rate PS, Time-of-Day Secondary Service Rate TODS, Industrial Time-of-Day Primary Service Rate ITODP, Commercial Time-of-Day Primary Service Rate CTODP, and Low Emission Vehicle Service Rate shall be divided by the expected kilowatt-hour sales for the upcoming twelve-month period.

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P.S.C. Electric No. 9, Original Sheet No. 86.2

Adjustment Clause

DSM

Demand-Side Management Cost Recovery Mechanism

-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.

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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.

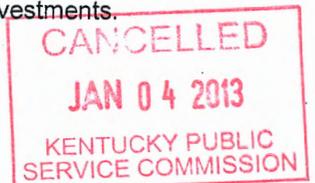
The balance adjustment amounts determined on the basis of the above paragraphs (1)-(4) shall include interest applied to the monthly amounts, such interest to be calculated at a rate equal to the average of the "Three-Month Commercial Paper Rate" for the immediately preceding twelve-month period. The total of the balance adjustment amounts shall be divided by the expected kilowatt-hour sales for the upcoming twelve-month period to determine the DBA for such rate class. DSM balance adjustment amounts will be assigned for recovery purposes to the rate classes for which over- or under-recoveries of DSM amounts were realized.

DCCR = DSM CAPITAL COST RECOVERY

The DCCR component is the means by which the Company recovers its capital investments made for DSM programs, as well as an approved rate of return on such capital investments. The Company calculates the DCCR component as follows:

$$DCCR = [(RB) (ROR + (ROR - DR) (TR / (1 - TR)))] + OE$$

- a) RB is the total rate base for DCCR projects.
- b) ROR is the overall rate of return on DSM Rate Base (RB).
- c) DR is the composite debt rate (i.e., the cost of short- and long-term debt) embedded in ROR.



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Adjustment Clause

DSM

Demand-Side Management Cost Recovery Mechanism

DCCR = DSM CAPITAL COST RECOVERY

The DCCR component is the means by which the Company recovers its capital investments made for DSM programs, as well as an approved rate of return on such capital investments. The Company calculates the DCCR component as follows:

$$DCCR = [(RB) (ROR + (ROR - DR) (TR / (1 - TR)))] + OE$$

- a) RB is the total rate base for DCCR projects.
- b) ROR is the overall rate of return on DSM Rate Base (RB).
- c) DR is the composite debt rate (i.e., the cost of short- and long-term debt) embedded in ROR.
- d) TR is the composite federal and state income tax rate that applies to the equity return component of ROR.
- e) OE is the sum of the capital-related operating expenses (i.e., depreciation and amortization expense, property taxes, and insurance expense) of the DSM projects to which DCCR applies.

The Company then allocates the DCCR component to the rate class(es) benefitting from the Company's various DSM-related capital investment(s).

CHANGES TO DSMRC

Modifications to components of the DSMRC shall be made at least thirty (30) days prior to the effective period for billing. Each filing shall include the following information as applicable:

- 1) A detailed description of each DSM program developed by the collaborative process, the total cost of each program over the twelve-month period, an analysis of expected resource savings, information concerning the specific DSM or efficiency measures to be installed, and any applicable studies that have been performed, as available.
- 2) A statement setting forth the detailed calculation of the DCR, DRLS, DSMI, DBA, DCCR, and DSMRC.

Each change in the DSMRC shall be placed into effect with bills rendered on and after the effective date of such change.

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Louisville Gas and Electric Company

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Adjustment Clause

DSM

Demand-Side Management Cost Recovery Mechanism

Residential Conservation / Home Energy Performance Program

The on-site audit offers a comprehensive audit from a certified auditor and incentives for residential customers to support the implementation of energy saving measures for a fee of \$25. Customers are eligible for incentives of \$500 or \$1,000 based on customer purchased and installed energy efficiency measures and validated through a follow-up test.

Residential Low Income Weatherization Program (WeCare)

The Residential Low Income Weatherization Program (WeCare) is an education and weatherization program designed to reduce energy consumption of LG&E's low-income customers. The program provides energy audits, energy education, blower door tests, and installs weatherization and energy conservation measures. Qualified customers could receive energy conservation measures ranging from \$0 to \$2,100 based upon the customer's most recent twelve-month energy usage and results of an energy audit.

Smart Energy Profile

The Smart Energy Profile Program provides a portion of LG&E's highest consuming residential customers with a customized report of tips, tools and energy efficiency programming recommendations based on individual household energy consumption. These reports are benchmarked against similar properties in locality. The report will help the customer understand and make better informed choices as it relates to energy usage and the associated costs. Information presented in the report will include a comparison of the customer's energy usage to that of similar houses (collectively) and a comparison to the customer's own energy usage in the prior year.

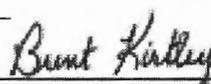
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Louisville Gas and Electric Company

P.S.C. Electric No. 9, Original Sheet No. 86.5

**Adjustment Clause DSM
Demand-Side Management Cost Recovery Mechanism**

Residential Incentives Program

The Residential Incentives Program encourages customers to purchase and install various ENERGY STAR® appliances, HVAC equipment, or window films that meet certain requirements, qualifying them for an incentive as noted in the table below.

Category	Item	Incentive
Appliances	Heat Pump Water Heaters (HPWH)	\$300 per qualifying item purchased
	Washing Machine	\$75 per qualifying item purchased
	Refrigerator	\$100 per qualifying item purchased
	Freezer	\$50 per qualifying item purchased
	Dishwasher	\$50 per qualifying item purchased
Window Film	Window Film	Up to 50% of materials cost only; max of \$200 per customer account; product must meet applicable criteria.
HVAC	Central Air Conditioner	\$100 per Energy Star item purchased plus an additional \$100 per SEER improvement above minimum
	Electric Air-Source Heat Pump	\$100 per Energy Star item purchased plus additional \$100 per SEER improvement above minimum

Residential Refrigerator Removal Program

The Residential Refrigerator Removal Program is designed to provide removal and recycling of working, inefficient secondary refrigerators and freezers from LG&E customer households. Customers participating in this program will be provided a one-time incentive. This program has an approved flexible incentive structure. The current program offering is defined on Sheet No 86.8.

Residential High Efficiency Lighting Program

The Residential High Efficiency Lighting program promotes an increased use of ENERGY STAR® rated CFLs within the residential sector. The Residential High Efficiency Lighting Program distributes compact fluorescent bulbs through direct-mail.

Residential New Construction Program

The Residential New Construction program is designed to reduce residential energy usage and facilitate market transformation by creating a shift in builders' new home construction to include energy-efficient construction practices. Builders who are part of the program can take advantage of technical training classes, gain additional exposure to potential customers and receive incentives to help offset costs when installing more energy-efficient features during home construction. LG&E will reimburse the cost of energy reviews and inspection costs related to an Energy Star or HERS home certification.

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Louisville Gas and Electric Company

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Adjustment Clause

DSM

Demand-Side Management Cost Recovery Mechanism

Residential HVAC Diagnostics and Tune Up Program

The Residential HVAC Diagnostic and Tune-up program targets customers with HVAC system performance issues. There are no incentives paid directly to customers. Customers are charged a discounted, fixed-fee for the diagnosis and if needed, a similar fee for implementation of corrective actions. Thus, the program pays the portion of diagnostic and tune-up cost in excess of the customer charge below. The customer cost is as follows:

- Customer cost is \$35 per unit for diagnostics test
- Customer cost is \$50 per unit for tune-up

Customer Education and Public Information

These programs help customers make sound energy-use decisions, increase control over energy bills and empower them to actively manage their energy usage. Customer Education and Public Information is accomplished through two processes: a mass-media campaign and an elementary- and middle-school program. The mass media campaign includes public-service advertisements that encourage customers to implement steps to reduce their energy usage. The elementary and middle school program provides professional development and innovative materials to K-8 schools to teach concepts such as basic energy and energy efficiency concepts.

Dealer Referral Network

The Dealer Referral Network assists customers in identifying qualified service providers to install energy efficiency improvements recommended and/ or subsidized by the various energy efficiency programs.

Commercial Customer Program Participation Incentives:

The following Demand Side Management programs are available to commercial customers receiving service from the Company on the GS, PS, TODS, CTODP, and RTS Standard Electric Rate Schedules. T

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.



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Adjustment Clause

DSM

Demand-Side Management Cost Recovery Mechanism

Commercial Conservation (Energy Audits) / Commercial Incentives

The Commercial Conservation / Commercial Incentive Program is designed to provide energy efficiency opportunities for the Companies' commercial class customers through energy audits and to increase the implementation of energy efficiency measures by providing financial incentives to assist with the replacement of aging and less efficient equipment. 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 improvements projects. Additionally, a custom rebate is available based upon company engineering validation of sustainable kW removed.

- 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 and Custom Rebates

Commercial HVAC Diagnostics and Tune Up Program

The Commercial HVAC Diagnostic and Tune-up program targets customers with HVAC system performance issues. There are no incentives paid directly to customers. Customers are charged a discounted, fixed-fee for the diagnosis and if needed, a similar fee for implementation of corrective actions. Thus, the program pays the portion of diagnostic and tune-up cost in excess of the customer charge below. The customer cost is as follows:

- Customer cost is \$50 per unit for diagnostics test
- Customer cost is \$100 per unit for tune-up

Customer Education and Public Information

These programs help customers make sound energy-use decisions, increase control over energy bills and empower them to actively manage their energy usage. Customer Education and Public Information is accomplished through two processes: a mass-media campaign and an elementary- and middle-school program. The mass media campaign includes public-service advertisements that encourage customers to implement steps to reduce their energy usage. The elementary and middle school program provides professional development and innovative materials to K-8 schools to teach concepts such as basic energy and energy efficiency concepts.

Dealer Referral Network

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Adjustment Clause

DSM

Demand-Side Management Cost Recovery Mechanism

Current Program Incentive Structures

Residential Load Management / Demand Conservation

Switch Option:

- \$5/month bill credit for June, July, August, & September per air conditioning unit or heat pump on single family home.
- \$2/month bill credit for June, July, August, & September per electric water heater or swimming pool pump on single family home.
- If new customer registers by April 30, 2013, then a \$20 gift card per air-conditioning unit, heat pump, water-heater and/or swimming pool pump switch installed.
 - Customers in a tenant landlord relationship will receive the entire \$20 new customer incentive.

Multi-family Option:

- \$2/month bill credit per customer for June, July, August, & September.
- \$2/month incentive per air conditioning or heat pump switch to the premise owner for June, July, August, & September.
- If new customer registers by April 30, 2013, then a \$20 gift card per air-conditioning unit or heat pump installed.
 - Customers in a tenant landlord relationship where the entire complex participates will split the new customer incentive with the property owner.
 - Customers in a tenant landlord relationship where only a portion of the complex participates, the tenant will receive a \$20 new customer incentive.

Residential Refrigerator Removal Program

The program provides \$50 per working refrigerator or freezer.

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Louisville Gas and Electric Company

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Adjustment Clause

DSM

Demand-Side Management Cost Recovery Mechanism

- Additional customer charges may be incurred for metering equipment necessary for this program at costs under other tariffs.

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Louisville Gas and Electric Company

P.S.C. Electric No. 9, Original Sheet No. 86.10

Adjustment Clause **DSM**
Demand-Side Management Cost Recovery Mechanism

Monthly Adjustment Factors

Residential Rate RS, Volunteer
 Fire Department Rate VFD, and
Low Emission Vehicle Service Rate LEV

	<u>Energy Charge</u>	
DSM Cost Recovery Component (DCR)	\$ 0.00168 per kWh	
DSM Revenues from Lost Sales (DRLS)	\$ 0.00098 per kWh	R
DSM Incentive (DSMI)	\$ 0.00008 per kWh	
DSM Capital Cost Recovery Component (DCCR)	\$ 0.00096 per kWh	
DSM Balance Adjustment (DBA)	\$ (0.00070) per kWh	
Total DSMRC for Rates RS, VFD, and LEV	\$ 0.00300 per kWh	R

General Service Rate GS

	<u>Energy Charge</u>	
DSM Cost Recovery Component (DCR)	\$ 0.00073 per kWh	
DSM Revenues from Lost Sales (DRLS)	\$ 0.00108 per kWh	R
DSM Incentive (DSMI)	\$ 0.00004 per kWh	
DSM Capital Cost Recovery Component (DCCR)	\$ 0.00003 per kWh	
DSM Balance Adjustment (DBA)	\$ (0.00004) per kWh	
Total DSMRC for Rate GS	\$ 0.00184 per kWh	T/R

Commercial Customers Served Under Power Service Rate PS

	<u>Energy Charge</u>	
DSM Cost Recovery Component (DCR)	\$ 0.00027 per kWh	
DSM Revenues from Lost Sales (DRLS)	\$ 0.00039 per kWh	R
DSM Incentive (DSMI)	\$ 0.00001 per kWh	
DSM Capital Cost Recovery Component (DCCR)	\$ 0.00009 per kWh	
DSM Balance Adjustment (DBA)	\$ 0.00001 per kWh	
Total DSMRC for Rate PS	\$ 0.00077 per kWh	R

Commercial Customers Served Under Time-of-Day
 Secondary Service Rate TODS and Commercial
Time-of-Day Primary Service Rate CTODP

	<u>Energy Charge</u>	
DSM Cost Recovery Component (DCR)	\$ 0.00023 per kWh	
DSM Revenues from Lost Sales (DRLS)	\$ 0.00029 per kWh	R
DSM Incentive (DSMI)	\$ 0.00001 per kWh	
DSM Capital Cost Recovery Component (DCCR)	\$ 0.00001 per kWh	
DSM Balance Adjustment (DBA)	\$ 0.00001 per kWh	
Total DSMRC for Rates TODS, and CTODP	\$ 0.00055 per kWh	T/R

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Louisville Gas and Electric Company

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Adjustment Clause **DSM**
Demand-Side Management Cost Recovery Mechanism

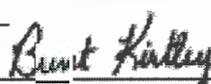
Monthly Adjustment Factors

Industrial Customers Served Under Power Service Rate PS, Time-of-Day Secondary Service Rate TODS, Industrial Time-of-Day Primary Service Rate ITODP, and Retail Transmission Rate RTS	<u>Energy Charge</u>	T T T
DSM Cost Recovery Component (DCR)	\$ 0.00000 per kWh	
DSM Revenues from Lost Sales (DRLS)	\$ 0.00000 per kWh	
DSM Incentive (DSMI)	\$ 0.00000 per kWh	
DSM Capital Cost Recovery Component (DCCR)	\$ 0.00000 per kWh	
DSM Balance Adjustment (DBA)	<u>\$ 0.00000</u> per kWh	
Total DSMRC for Rates PS, TODS, ITODP, and RTS	\$ 0.00000 per kWh	T

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