

## **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.”)

### **WITNESSETH:**

**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.

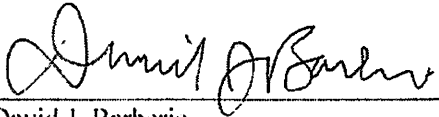
**4.14.** The signatories hereto warrant that they have appropriately informed, advised, and consulted their respective Parties in regard to the contents and significance of this Settlement Agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of their respective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

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*