

RIDER DSM

DEMAND SIDE MANAGEMENT COST RECOVERY RIDER

APPLICABILITY

Applicable to service rendered under the provisions of Rates RS (residential class), GS, and FT (non-residential class).

CHARGES

The monthly amount computed under each of the rate schedules to which this rider is applicable shall be increased or decreased by the DSM Charge at a rate per hundred cubic feet (CCF) of monthly consumption in accordance with the following formula:

$$\text{DSM Charge} = \text{PC} + \text{LR} + \text{PI} + \text{BA}$$

Where: **PC = DSM PROGRAM COST RECOVERY.** For each twelve month period, the PC shall include all expected costs for demand-side management programs which have been approved by a collaborative process. 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 PC. 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 avoided pipeline capacity and commodity costs resulting from each program.

The PC applicable to the residential class shall be determined by dividing the cost of approved programs allocated or assigned to the residential class by the expected CCF throughput for the upcoming twelve-month period. Similarly, the cost of approved programs assigned to the non-residential class shall be divided by the expected CCF throughput for the upcoming twelve-month period to determine the PC applicable to the non-residential rate class.

LR = LOST REVENUE FROM DECREASED THROUGHPUT RECOVERY. Revenues from lost throughput due to DSM programs will be recovered through the decoupling of revenues from actual throughput of the residential class. At the end of each twelve-month period after implementation of the DSM Charge, the non-variable revenue requirement (total revenue requirement less variable costs) for the residential class for Duke Energy Kentucky, Inc.'s most recent twelve month period will be adjusted to reflect changes in the number of customers and the usage per customer as follows: (1) the non-variable revenue requirement will be multiplied by the

Issued by authority of an Order of the Kentucky Public Service Commission dated December 29, 2009 in Case No. 2009-00202.

Issued: September 29, 2010

Effective: September 30, 2010

Issued by Julie Janson, President

CHARGES (Cont'd)

factor obtained by dividing the twelve month average number of customers at the end of the current twelve-month period by the twelve month average number of residential customers at the end of the twelve-month period ending December 1994, and (2) the non-variable revenue requirement will be multiplied by a factor "F_g" calculated by the following formula:

LR = LOST REVENUE FROM DECREASED THROUGHPUT RECOVERY. (Contd.)

$$F_g = (1 + g)^{n/12}$$

Where: g = Growth factor - recalculated annually based on the most recent eleven years of actual customer data. Initially "g" shall be set at -0.0156; and
n = the number of months from December 1994 to the end of the current twelve-month period.

At the end of each twelve-month period after implementation of the DSM Charge, the difference between the actual non-variable revenue billed during the twelve-month period and the adjusted non-variable revenue requirement, as described above, will be determined. This difference ("LR amount established for the twelve-month period") will be divided by the estimated CCF throughput for the upcoming twelve-month period to determine the LR for the residential class.

The LR applicable to the non-residential class shall be computed by 1) multiplying the amount of CCF throughput that will be lost for each twelve-month period as a result of the implementation of the approved programs times the CCF throughput charge for the applicable rate schedule, less the variable cost included in the charge; and, 2) dividing that product by the expected CCF throughput for the upcoming twelve-month period. The lost revenue attributable to decreased throughput to the non-residential class due to approved programs will be calculated through estimates agreed upon by the collaborative process, which may include engineering estimates, of the level of decreased throughput. Recovery of revenues from decreased throughput calculated for a twelve-month period for non-residential rate classes shall be included in the LR until terminated by the implementation of new rates pursuant to a general rate case. Revenues from such decreased throughput will be assigned for recovery purposes to the rate classes whose programs resulted in the decreased throughput.

PI = DSM PROGRAM INCENTIVE RECOVERY. The DSM Program Incentive (PI) amount shall be computed by multiplying the net resource savings expected from the approved programs which are to be installed during the upcoming twelve-month period times fifteen (15) percent. Net resource savings are defined as program benefits less the cost of the program, where program benefits will be calculated on the basis of the present value of Duke Energy Kentucky, Inc.'s avoided gas costs over the expected life of the program, and will include both capacity and

Issued by authority of an Order of the Kentucky Public Service Commission dated December 29, 2009 in Case No. 2009-00202.

Issued: September 29, 2010

Effective: September 30, 2010

Issued by Julie Janson, President

CHARGES (Cont'd)

commodity savings. The DSM incentive amount related to programs for the residential class shall be divided by the expected CCF throughput for the upcoming twelve-month period to determine the PI for that rate class. The PI amount related to programs for the non-residential class rates shall be divided by the expected CCF throughput for the upcoming twelve-month period to determine the PI for that rate class. DSM incentive amounts will be assigned for recovery purposes to the rate classes whose programs created the incentive.

BA = DSM BALANCE ADJUSTMENT. The BA is used to reconcile the difference between the amount of revenues actually billed through the respective DSM Charge components; namely, the PC, LR, and PI and previous BA, and the revenues which should have been billed, as follows:

- (1) For the PC, the balance adjustment amount will equal the difference between the amount billed in a twelve-month period from the application of the PC unit charge and the actual cost of the approved programs during the same twelve-month period.
- (2) For the LR applicable to the residential class, the balance adjustment amount will equal the difference between the amount billed during the twelve-month period from the application of the LR unit charge and the LR amount established for the same twelve-month period.

For the LR applicable to the non-residential class, the balance adjustment amount will equal the difference between the amount billed during the twelve-month period from application of the LR unit charge and the amount of lost revenues determined for the actual DSM program, or measures implemented during the twelve-month period.

- (3) For the PI, the balance adjustment amount will equal the difference between the amount billed during the twelve-month period from application of the PI unit charge and the incentive amount determined for the actual DSM program, or measures implemented during the twelve-month period.
- (4) For the BA, the balance adjustment amount will equal the difference between the amount billed during the twelve-month period from application of the BA and the balance adjustment amount established for the same twelve-month period.

The balance adjustment amounts determined above shall include interest. The interest applied to the monthly amounts, shall be calculated at a rate equal to the average of the "3-month Commercial Paper Rate" for the immediately preceding 12-month period. The total of balance adjustment amounts shall be divided by the expected CCF throughput for the upcoming twelve-month period to determine the BA. DSM balance adjustment amounts will be assigned for recovery purposes to the rate classes to which over or under-recoveries of DSM amounts were realized.

Issued by authority of an Order of the Kentucky Public Service Commission dated December 29, 2009 in Case No. 2009-00202.

Issued: September 29, 2010

Effective: September 30, 2010

Issued by Julie Janson, President

CHARGES (Cont'd)

All costs recovered through the DSM Charge will be assigned or allocated to Duke Energy Kentucky, Inc.'s electric or gas customers on the basis of the estimated net electric or gas resource savings resulting from each program.

DSM CHARGE FILINGS

The filing of modifications to the DSM Charge shall be made at least thirty days prior to the beginning of the effective period for billing. Each filing will include the following information as needed:

- (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 which have been performed, as available.
- (2) A statement setting forth the detailed calculation of each component of the DSM Charge.

Each change in the DSM Charge shall be applied to customers' bills with the first billing cycle of the revenue month which coincides with, or is subsequent to, the effective date of such change.

SERVICE REGULATIONS

The supplying of, and billing for, service and all conditions applying thereto, are subject to the jurisdiction of the Kentucky Public Service Commission, and to Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission, as provided by law.

Issued by authority of an Order of the Kentucky Public Service Commission dated December 29, 2009 in Case No. 2009-00202.

Issued: September 29, 2010

Effective: September 30, 2010

Issued by Julie Janson, President