

Dear KU Customer:

To comply with existing federal and state environmental laws and regulations, KU must continue to invest in additional pollution control facilities. Currently, KU is seeking the Kentucky Public Service Commission's ("Commission") approval to amend an existing project to build additional pollution control facilities. Following Commission approval, the actual costs associated with the pollution control facilities would be passed on to retail customers through the existing Environmental Surcharge billing factor. The announcement below is included to comply with Commission regulations regarding notice of tariff changes to customers. If approved as filed, this change in rates will be included on customer bills no sooner than August 30, 2017.

**NOTICE TO CUSTOMERS OF
KENTUCKY UTILITIES COMPANY**

**RECOVERY BY ENVIRONMENTAL SURCHARGE OF KENTUCKY UTILITIES COMPANY'S
AMENDMENT TO ITS 2016 ENVIRONMENTAL COMPLIANCE PLAN**

PLEASE TAKE NOTICE that Kentucky Utilities Company ("KU") filed with the Kentucky Public Service Commission ("Commission") on January 26, 2018 in Case No. 2017-00483, an Application pursuant to Kentucky Revised Statute 278.183 for approval of an amendment to Project 36 of its 2016 Environmental Compliance Plan for the purpose of recovering the capital costs associated with new pollution control facilities ("Amended Project 36") through an increase in the environmental surcharge on customers' bills beginning August 30, 2018 under KU's existing Electric Rate Schedule ECR, also known as the environmental cost recovery surcharge. The total capital cost of Amended Project 36 in KU's 2016 Environmental Compliance Plan is estimated to be \$14.7 million.

On August 8, 2016, the Commission approved KU's 2016 Environmental Compliance Plan, including the original Project 36, and granted an associated Certificate of Public Convenience and Necessity in Case No. 2016-00026. The total capital cost of the original Project 36 was then estimated to be \$11.9 million. Following the approval of this project, KU continued to evaluate the timing of and capacity needs for Phase II of the landfill at the E.W. Brown Generation Station ("Brown"), and construction did not begin prior to the one-year expiration of the Certificate of Public Convenience and Necessity authorization. The increase in the total capital cost between the original Project 36 and the cost of the now proposed amendment to Project 36 is estimated to be \$2.8 million.

Federal and state environmental regulations require KU to build and upgrade equipment and facilities that produce energy from coal to operate in an environmentally sound manner. Specifically, KU is seeking Commission approval of a Certificate of Public Convenience and Necessity for the construction of Phase II of the landfill at Brown and to cap and close any remaining surface area of the Brown Main Ash Pond. This construction project is an amendment to Project 36 of KU's 2016 Environmental Compliance Plan that was approved by the Commission in 2016.

Additionally, KU is seeking an order approving Amended Project 36 for purposes of recovering the costs of the new pollution control facilities through its Environmental Surcharge tariff. Amended Project 36 is required for KU to comply with the U.S. Environmental Protection Agency's federal *Hazardous and Solid Waste Management System; Disposal of Coal Combustion Residuals from Electric Utilities* ("Federal CCR Rule"), and other environmental requirements that apply to KU facilities used in the production of energy from coal. The total capital cost of the new pollution control facilities for which KU is seeking recovery at this time is estimated to be \$14.7 million. O&M costs related to amended Phase II will be similar to O&M costs incurred in Phase I and are not distinguishable. If Amended Project 36 is approved,

KU plans to continue to recover its Brown CCR Landfill O&M costs through its environmental surcharge as part of Project 29 in KU's 2011 ECR Plan.

The impact on KU's Group 1 customers is estimated to be a 0.05% increase in 2018 with a maximum increase of 0.13% in 2020. Group 1 includes Rate Schedules RS, AES, and all Lighting Rates. For a KU residential customer using 1,122 kilowatt hours per month (kWh/mo), the initial monthly increase is expected to be \$0.06 during 2018, with the maximum monthly increase expected to be \$0.15 during 2020. AES customers using 21,341 kWh/mo could expect a monthly increase of \$0.97 up to \$2.50. Lighting Energy customers using 9,307 kWh/mo could expect a monthly increase of \$0.34 up to \$0.87. Traffic Energy customers using 160 kWh/mo and Lighting Service and Restricted Lighting Service customers using 61 kWh/mo could expect a monthly increase of \$0.01 up to \$0.02.

The impact on KU's Group 2 customers is estimated to be a 0.08% increase in 2018 with a maximum increase of 0.19% in 2020. Group 2 includes Rate Schedules GS, PS-Secondary (PSS), PS-Primary (PSP), Time of Day Secondary (TODS), Time of Day Primary (TODP), Retail Transmission Service (RTS), Fluctuating Load Service (FLS), School Power Service (SPS), School Time of Day Service (STOD), and Outdoor Sports Lighting Service (ODL).

GS customers using 1,805 kWh/mo could expect a monthly increase of \$0.13 up to \$0.34.
PSS customers using 39,535 kWh/mo could expect a monthly increase of \$1.85 up to \$4.78. PSP customers using 82,036 kWh/mo could expect a monthly increase of \$3.92 up to \$10.14.
TODS customers using 245,344 kWh/mo could expect a monthly increase of \$8.76 up to \$22.67.
TODP customers using 1,241,109 kWh/mo could expect a monthly increase of \$35.48 up to \$91.81.
RTS customers using 4,160,317 kWh/mo could expect a monthly increase of \$106.75 up to \$276.26.
FLS customers using 46,076,466 kWh/mo could expect a monthly increase of \$1,033.18 up to \$2,673.67.
SPS and ODL customers could expect monthly increases consistent with PSS and PSP customers using the same kWh/mo.
STOD customers could expect monthly increases consistent with TODS customers using the same kWh/mo.

The Environmental Surcharge Application described in this Notice is proposed by KU. However, the Public Service Commission may issue an order modifying or denying KU's Environmental Surcharge Application. Such action may result in an environmental surcharge for customers other than the environmental surcharge described in this Notice.

Comments regarding KU's Amendment to Project 36 of its 2016 Environmental Surcharge Plan and Application may be submitted to the Public Service Commission through its website or by mail to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602.

Any person may submit a timely written request for intervention in Case No. 2017-00483 to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party. If the Commission does not receive a written request for intervention within thirty (30) days of initial publication, the Commission may take final action on the Application. Any person who has been granted intervention may obtain copies of the Application and testimony by contacting Kentucky Utilities Company at 220 West Main Street, Louisville, Kentucky, 40202, Attention: State Regulation and Rates.

A copy of the Application and testimony is available for public inspection on KU's website (<http://www.lge-ku.com>), on the Commission's website (<http://www.psc.ky.gov>), and in paper medium Monday through Friday, 8:00 a.m. to 4:30 p.m. at the office of Kentucky Utilities Company, 100 Quality Street, Lexington, Kentucky or the Commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, after January 26, 2018.