NOTICE OF DISCOUNT

UNDER RATE SCHEDULE 2

Pursuant to LG&E/KU's currently effective Rate Schedule 2, LG&E/KU is required to provide reactive power service at a rate of up to $0.108 per kW-Month times a Transmission Customer's Reserved Capacity or the Transmission Customer's Network Load for Network Integration Transmission Service. LG&E and KU Energy LLC (LKE), through its operating subsidiaries LG&E and KU, notifies all transmission customers that the rate for Schedule 2 ancillary service is being discounted pursuant to the Table 1 below and that this discount is being applied equally for all customers for that billing month. The reason for the discount is to match revenues to expenses paid to generators. The currently effective Rate Schedule 2 provides payment to and recovery for costs paid to generators for reactive power produced outside of the plus or minus 95 percent power factor bandwidth. All revenues collected from customers through current rates will be subject to a true-up during the first quarter of 2014.

The actual Schedule 2 rate will be calculated at the end of each month based upon the actual total cost to generators for that billing month. The table below contains the historical Schedule 2 rates as well as the projected rate.

Table 1

($/kW-period)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Month | Monthly | Weekly | Daily (peak) | Hourly (peak) | Daily (off-peak) | Hourly (off-peak) |
| Jan-13 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Feb-13 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Mar-13 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Apr-13 | 0.045 | 0.010385 | 0.001731 | 0.0001082 | 0.0014835 | 0.0000618 |
| May-13 | 0.06 | 0.013846 | 0.002308 | 0.0001442 | 0.001978 | 0.0000824 |
| Jun-13 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Jul-13 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Aug-13 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Sep-13 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Oct-13 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Nov-13 | 0.05 | 0.011538 | 0.001923 | 0.0001202 | 0.001648 | 0.0000687 |
| Dec-13 | 0.05 | 0.011538 | 0.001923 | 0.0001202 | 0.001648 | 0.0000687 |
| Jan-14 | 0.05 | 0.011538 | 0.001923 | 0.0001202 | 0.001648 | 0.0000687 |
| Feb-14 | 0.05 | 0.011538 | 0.001923 | 0.0001202 | 0.001648 | 0.0000687 |
| Mar-14 | 0.05 | 0.011538 | 0.001923 | 0.0001202 | 0.001648 | 0.0000687 |
| Apr-14 | 0.05 | 0.011538 | 0.001923 | 0.0001202 | 0.001648 | 0.0000687 |
| May-14 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Jun-14 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Jul-14 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Aug-14 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Sep-14 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Oct-14 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Nov-14 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Dec-14 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Jan-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Feb-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Mar-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Apr-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| May-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Jun-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Jul-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Aug-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Sep-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Oct-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Nov-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Dec-15 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Jan-16 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Feb-16 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Mar-16 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Apr-16 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| May-16 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Jun-16 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Jul-16 | 0.04 | 0.009231 | 0.001538 | 0.0000962 | 0.001319 | 0.0000549 |
| Aug-16 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Sep-16 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Oct-16 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Nov-16 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Dec-16 | 0.08 | 0.018462 | 0.003077 | 0.0001923 | 0.002637 | 0.0001099 |
| Estimated average 2016 cost | 0.07 |  |  |  |  |  |