COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF LOUISVILLE GAS AND ELECTRIC COMPANY S PREPAID GAS AND ELECTRIC SERVICE	)))	CASE NO. 2002-00232

O R D E R

On May 31, 2002, Louisville Gas and Electric Company (LG&E) filed a report on the results of the first 12 months of a pilot program offering prepaid meter service to residential gas and electric customers. LG&E s report concluded that the pilot was a success and requested that the program be expanded and accepted on a permanent basis.

The Commission subsequently opened this case to investigate LG&E s report. A procedural schedule was established and the following persons were deemed to be parties to this case: Metro Human Needs Alliance and People Organized and Working for Energy Reform (MHNA/POWER) and the Kentucky Association for Community Action and the Council for Community Action for Lexington-Fayette, Bourbon, Nicholas and Harrison Counties (KACA/CAC). The Attorney General of the Commonwealth of Kentucky (AG) subsequently requested and was granted intervention. LG&E filed direct testimony with its report on the results of the pilot on May 31, 2002; rebuttal testimony on December 2, 2002; and testimony in response to intervenor rebuttal testimony on February 7, 2003. Intervenor direct testimony was filed October 7 and 25, 2002, and intervenor surrebuttal testimony was filed on January 30, 2003. A formal hearing was held February 19 and 20, 2003, post-hearing briefs were filed March 14, 2003, and the case now stands submitted for decision.

BACKGROUND

LG&E s prepaid meter program became effective January 4, 2001 as a one-year pilot tariff available to 500 of LG&E s residential gas and electric customers. The Commission initiated Case No. 2000-00548 to investigate the reasonableness of the tariff.[1] That investigation concluded with our January 4, 2002 Order authorizing LG&E to continue the prepaid meter program on a pilot basis until further review by the Commission and requiring LG&E to file a report of the results of the program through March 31, 2002.

Prepaid customers receive a prepay meter, an in-house display unit, and two smart cards with which to pay for their energy usage. A customer puts money into the paystation, which transfers that amount onto a smart card. The customer later inserts the smart card into the in-house unit, which displays the amount of energy the customer has prepaid. The display unit will also show the customer s instantaneous electric consumption and the length of time until the prepayment will be reduced to zero. Initially, there was a single paystation located in Louisville, Kentucky at LG&E s 8th and Broadway service center.[2] The customers participating in the pilot program were required to reside within a 5-mile radius of the 8th and Broadway service center.

[1] Case No. 2000-00548, The Tariff Filing of Louisville Gas and Electric Company to Establish Prepaid Gas and Electric Service.

[2] Another paystation located at 28th and Broadway was installed in August 2002.

From April through October, a prepaid customer s electric service would shut off when the customer allowed the amount of energy purchased to run to zero. However, from November through March, the primary heating season months, the prepaid meters operated in credit mode like a traditional meter. Thus, prepaid meters did not shut off when all the energy purchased was consumed. During those months, participants in the pilot were treated no differently than traditional credit customers with regard to LG&E s disconnection policies.

The prepay program was available to residential customers on an optional basis. Gas customers participating in the program were required to become budget payment customers so that their budgeted gas payments could be spread over the first 600 hours in a month. The fixed portion of their electric bills, which included LG&E s standard electric service customer charge and a $7.50 facilities charge to cover the cost of the prepay meter, was also spread over the first 600 hours in each month. The electric energy rate was based on a weighted average of the seasonal rates contained in LG&E s Residential Rate Schedule. For customers with arrearages, 30 cents of every dollar charged was credited against their arrearage balances.

LG&E was granted a deviation from 807 KAR 5:006, Section 14, which requires a written notice of service termination for non-payment. The deviation was applicable to the portion of the year when prepaid customers service was automatically disconnected as a result of customers not recharging their smart card.

CURRENT PROPOSAL

LG&E now proposes to expand the prepaid meter program to its entire service territory and projects that, when fully implemented, there will be 40,000 participants in the program. With this expansion, LG&E estimates having more than 20 paystations installed throughout its service territory. In its May 31, 2002 filing, LG&E proposed to reduce the monthly facilities charge from $7.50 to $3.04. With the filing of its rebuttal testimony, LG&E revised the proposed facilities charge upward to $3.69 per month to reflect revisions to the program s transaction costs plus the cost of upgrading its Customer Information System (CIS) to allow it to interface with the prepaid meter program. The proposed reduction in the current $7.50 facilities charge was based on lower cost of meters, per-unit cost reductions if the program is expanded, and a larger-than-expected reduction in bad debt write-offs experienced during the pilot program.

The proposed expanded program would essentially operate in the same manner as the pilot program. Differences are that the proposed prepaid meter tariff now reflects the addition of LG&E s Value Delivery Surcredit Rider and Earnings Sharing Mechanism (ESM), which were not included in the pilot tariff. Because of the differential in LG&E s seasonal energy rates and the use of a calculated average of those rates for prepaid service, the tariff prohibits customers from participating in the summer when the prepaid rate is less than LG&E s summer rates and then switching back to traditional credit service for the rest of the year when the prepaid rate is greater than LG&E s winter rates.

LG&E promotes the prepaid meter program on two main points: (1) it gives participants a service option that allows them to monitor their consumption and to pay for their energy usage more frequently and in smaller increments than if they were traditional credit customers; and (2) the program produces a significant reduction in arrearages and bad debt expense. These reductions inure to the benefit of both LG&E and its ratepayers.

LG&E states that it received a large majority of favorable responses in the survey responses received from customers that participated in the pilot. It acknowledges that the prepaid meter program is not for all customers, and that the pilot program, with its limited size, was not self-sufficient or cost-effective. LG&E did testify, however, that it anticipates that the program will be self-sufficient and cost-effective when fully implemented.

LG&E stated that it purchased meters from Motorola for use during the pilot, and anticipated continuing to do so at a lower per-unit cost if the quantities purchased were increased. During the course of this proceeding, LG&E indicated that it was trying to obtain even lower cost prepaid meters from a different vendor. LG&E later received notice that Motorola was terminating its meter production operations. LG&E subsequently entered into a contract to purchase lower priced meters from Ampy, a firm based in the United Kingdom that has supplied prepay meters to many European clients but none in the United States.

LG&E proposed a monthly facilities charge of $3.69 that reflected the lower cost of meters expected from Motorola and credited the full reduction in bad debt expenses under the pilot against the cost of meters, paystations and upgrading its CIS. LG&E also filed, subject to confidential treatment, a slightly lower facilities charge based on the cost of the Ampy meters, but with less than the full reduction in bad debt expense used to offset the cost of meters, paystations, etc., on the basis that it was appropriate to include the smaller offset so the remainder of the bad debt reduction could benefit the non-participating customers through its ESM.

INTERVENOR POSITIONS

MNHA/POWER

MHNA/POWER oppose continuing the program on several grounds. They claim that participants receive a reduced level of service due to the potential for frequent interruptions and the requirement to physically visit a paystation in order to pay for their energy usage. They also point out that participants will not receive service termination notice comparable to that received by credit customers. Accordingly, MHNA/POWER argue that participants should pay rates that are lower than those charged to credit customers, not the rates charged to credit customers plus an additional facilities charge.

MHNA/POWER claim that the program is not truly voluntary. LG&E customers are offered the prepay program as an alternative when they seek to make arrangements to pay on their arrearages or have service restored after disconnection for non-payment. A customer seeking to have service restored is required to pay 100 percent of his arrearage before his service is restored. MHNA/POWER claim that the program is not truly voluntary if customers lack the funds necessary to fully pay their arrearages because the only alternative is to go without service.

MHNA/POWER recommend that customers who participate in the federal Low-Income Home Energy Assistance Program (LIHEAP) be excluded from participating in the program. They argue that customers' eligibility to receive LIHEAP funds to provide assistance on their utility bills may be jeopardized by the disconnect provisions of the prepaid meter program. They also argue that low-income customers may not fully understand the program or that the program conflicts with these customers ability to acquire the budgeting skills needed to manage their daily lives on their income levels.

MHNA/POWER claim that LG&E s assumptions on the program s cost-effectiveness if fully implemented are overly optimistic. They contend that LG&E s estimate of the administrative costs that will be incurred for the program is significantly understated and that the fixed cost included in the proposed facilities charge is also understated due to LG&E s unrealistic assumption of 32-year lives for the prepay meters and paystations. In order for the program to fully recover its costs, MHNA/POWER contend that the monthly facilities charge would need to be set at roughly 10 times the level proposed by LG&E. If the facilities charge is set at the level proposed by LG&E, the program s costs will not be recovered and non-participating customers will be negatively impacted through LG&E s ESM, according to MHNA/POWER.

MHNA/POWER argue that LG&E s surveys of program participants were incomplete and/or biased and should not be relied upon in evaluating the program. MHNA/POWER also express concerns with the switch from Motorola to Ampy as the meter supplier. They base their concerns on Ampy s not having historically supplied meters to the U.S. market and on the fact that certain information contained in LG&E s contract with Ampy is confidential.

Although opposed to continuing the prepaid meter program, MHNA/POWER offered suggested conditions they believe the Commission should impose if the prepaid meter program is allowed to continue. Those conditions are summarized as follows: (1) the issue of LIHEAP funding must be resolved; (2) any new equipment must be fully tested before customers have such equipment installed; (3) the size of the program must be restricted until it can be shown to be cost-effective and the length of time until such a showing must be made should be restricted; (4) the program must be reviewed by an independent third party in the near future; (5) any shortfall in cost recovery within the program should be borne by shareholders, not other customers; (6) customers must be informed of the amount of the monthly facilities charge and of the possibility of losing LIHEAP eligibility by participating in the program; (7) LG&E must provide information on whether program participants realize energy savings; (8) customers must not be compensated for taking part in program-related surveys; (9) the bad debt incurred by participants before they join the program must be reported; and (10) LG&E must track the program costs, number of disconnects for participants, and number of service runs to resolve meter problems of participants.

KACA/CAC

KACA/CAC make many of the same arguments against continuing the program as do MHNA/POWER. KACA/CAC contend that the program establishes a separate class of prepaid service residential customers that receive a lesser quality of service, while being charged more than traditional credit customers. They argue that this occurs even though LG&E stands to save money via the reductions in arrearages that are expected to be realized as a result of the program. They also claim that LG&E s customer surveys were flawed, rendering them of no value in analyzing customers opinions of the pilot program.

KACA/CAC claim that the program is not truly voluntary, for reasons that mirror those of MHNA/POWER. KACA/CAC argue that customers should be permitted to have service restored by paying 30 percent of their outstanding arrearages, since that is the percentage of prepaid customers payments that goes toward reducing their arrearages. They contend that LG&E s cost-benefit analysis of the expanded program is flawed by understating the costs and overstating the bad debt reductions.

KACA/CAC contend that low-income customers should be prohibited from participating in the program. They also claim that program participants will likely not have access to LIHEAP crisis and emergency funds due to the lack of specificity in LG&E s substitute brown bill that was developed to give program participants notice of termination of service. KACA/CAC argue that continuation of the prepaid meter program should be based on the assumption that participants will lose their LIHEAP eligibility and that LG&E will be unable to take into account LIHEAP payments in any cost projections related to the program.

KACA/CAC also proposed a number of conditions that should be imposed if the Commission allows the prepaid meter program to be continued. Those conditions are summarized as follows: (1) the program should be limited to an expanded pilot with no more than 1,000 customers; (2) the prepaid meters must operate in credit mode from November 1 through March 31 of each heating season; (3) a date must be set to evaluate the program s cost-effectiveness by an independent third party and if the program is not cost-effective, it must be discontinued; (4) shareholders must bear any shortfalls in recovery of program costs, not non-participating customers; and (5) low-income customers eligible for LIHEAP should not be eligible for the program.

AG

The AG does not advocate a position on the issue of continuing the program, but does take a position on various aspects of the program. The AG states that Kentucky s annual plan as filed with the federal government to obtain LIHEAP funds can be amended to allow for payments to prepaid customers if the parameters of the current plan are too inflexible to allow such payments. He points to the current provisions in the LIHEAP regulations and statutes that provide for payments to customers who prepay for bulk fuels such as propane, wood, and coal, and states that there should be no problem with establishing similar provisions for customers who prepay for gas or electric service. The AG also recommends that LG&E s substitute brown bill be revised to ensure that prepaid customers have the same information regarding available assistance programs as that provided to traditional credit customers.

If the program is continued, the AG contends that the facilities charge should be established at a level sufficient to ensure that the benefits of the program inure to all residential customers, not just those participating in the program. He also states that there are both advantages and disadvantages to the program that customers must take into consideration in determining whether to participate.

The AG identified other conditions he believes should be applied to the program if it is continued. He recommends that, if continued, the program should remain as a pilot, larger in scope than the initial pilot, with an independent third-party evaluation to determine whether it has been cost-effective and whether it has been used coercively against low-income customers. The AG states that the program should include a winter non-disconnect period established by the Commission, not LG&E.

FINDINGS

LG&E s prepaid meter program is unique among the energy utilities subject to our jurisdiction. Similar programs are operated outside the United States or by utilities not subject to the same regulatory oversight as is LG&E, or were in place several years ago when today s technology did not exist. Accordingly, the issue of prepaid meters for electric service, with gas service included via budget billing, is a matter of first impression in Kentucky and an issue on which there is little reported experience outside the Commonwealth.

The record clearly shows that there were some technical and administrative problems in the initial phase of the pilot program. The Commission also shares some of the intervenors concerns regarding the approach taken by LG&E in conducting its customer surveys. However, it is certainly not unusual for a new program to require some fine tuning. The Commission has considered the results of the pilot and the analysis of the proposed expansion in evaluating LG&E s proposal to expand the prepaid meter program.

The concerns expressed by various intervenors about customers ability to fully understand the details of the program are understandable. The Commission acknowledges those concerns as well as others expressed during the course of this proceeding. However, many of the issues raised by the intervenors were previously argued and adjudicated in Case No. 2000-00548 when the prepaid meter program was approved on a pilot basis. In addition, certain of the conditions that MHNA/POWER or KACA/CAC recommend be included as part of any continuation of the program are inappropriate for one or more of the following reasons: (1) they are being overly restrictive; (2) they intrude into areas that are clearly within the discretion of LG&E s management; or (3) they insert the intervenors into positions that are within the sole purview of the Commission.

The intervenors concerns that we find to be valid, however, do not rise to a level that justifies terminating the program, as MHNA/POWER and KACA/CAC advocate. Those concerns focus primarily on the facilities charge, the cost-effectiveness of the expanded program, ensuring that the program remains voluntary, the disconnection issues, LG&E s customer surveys versus a third-party evaluation, and whether program participants might be at risk of losing LIHEAP benefits. Due to those concerns, our approval of the proposed expansion is subject to the conditions delineated below.

Facilities Charge

For the proposed monthly facilities charge of $3.69, LG&E proposed that the full amount of the reduced bad debt expense be used to offset the fixed and incremental costs of the program. The calculation of this charge was not intended to produce a result that would provide non-participants any benefits from the program. Benefiting non-participants occurred when LG&E calculated a smaller facilities charge based on a reduced cost of meters under LG&E s contract with Ampy.[3] LG&E s concern that the prepaid meter program benefits non-participants only when the lower cost of the Ampy meters is used to derive the facilities charge is inconsistent. Even though LG&E expresses confidence in the future cost-effectiveness and self-sufficiency of the program, imposing a limit on the portion of the bad debt reduction used to offset the

[3] Seelye Responsive Testimony at 6.

program s costs is an obvious means by which to maintain the facilities charge near the $3.69 level that was proposed based on the higher cost Motorola meters.

A facilities charge based on the cost of an Ampy meter, with the full amount of the bad debt reduction used to offset the program s costs, results in a charge significantly smaller than the $3.69 charge proposed by LG&E. Although an argument can be made that the program should not be required to benefit non-participants, we find that the program should be designed so there is no negative impact on non-participants if the program does not cover its costs. For that reason, we will approve a facilities charge of $2.00 per month. The derivation of this charge is shown in Appendix A, which is attached hereto and incorporated herein by reference.[4] Based on LG&E s projections, this level should fully recover the program s fixed costs based on the lower Ampy meter cost, plus produce additional revenues that will benefit LG&E, as well as non-participants. In addition, it will cushion against negative impacts on non-participants in the event the program s actual costs exceed the projections or the projected number of participants does not materialize.

Program Cost-Effectiveness

Although MHNA/POWER and KACA/CAC argue that some of its assumptions are overly optimistic, the Commission concludes that LG&E adequately refuted the intervenors arguments concerning the program s cost-effectiveness in its response testimony. LG&E s assumptions concerning a reduced level of administrative costs as

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[4] The derivation of this charge contains data that has been granted confidential protection. Therefore, Appendix A reflects only the publicly available data. An unredacted version of Appendix A will be maintained in the confidential file for this case, subject to review upon entering into a protective agreement pursuant to 807 KAR 5:001, Section 7.

the program becomes established, and its adoption of industry standards regarding the useful life of the equipment, are all reasonable and consistent with industry practice.

On the other hand, the increasing levels of bad debt reductions that are projected to be a result of the prepaid meter program are not typically seen in new billing and metering programs. For that reason, and because of the uncertainty as to whether the bad debt reduction experienced in the small-scale pilot will increase proportionately as the program is expanded, we find that the facilities charge should be set at a level slightly greater than what is derived when the full amount of the bad debt reduction is offset against the program s costs.

In addition to the uncertainty as to the level of bad debt reductions, there is always the possibility that participation levels for a new program will not meet expectations. While the number and cost of meters and paystations will vary directly with the number of participants, other costs, such as to upgrade the customer information system, will be incurred regardless of the number of participants. If the program falls far short of its participation targets, the revenue collected through the facilities charge may not be adequate to cover the program s costs. To hopefully avoid this result, we will require LG&E to file periodic reports on the progress of the program s expansion. LG&E will be expected to move forward cautiously in deciding the timing and magnitude of capital commitments for the program to avoid over-expansion and higher program costs that are not justified by the number of participants and the program s revenue stream.

Optional Nature of the Program

For customers whose service has already been disconnected for failure to pay, the prepaid meter program provides an option to regain service without paying their arrearages in full. Pursuant to Commission regulation 807 KAR 5:006, Section 14(1)(d), [A] utility shall not be required to furnish new service to any customer who is indebted to the utility for service furnished or other tariffed charges until that customer has paid his indebtedness. Thus, LG&E may properly require disconnected customers to pay their arrearages in full prior to reconnection, unless the customer qualifies for the Winter Hardship Reconnection, 807 KAR 5:006, Section 15, discussed below.

LG&E stated in response to hearing data request, Item 2, that its reconnection policy has always required payment of arrearages in full, but that it was not adhering to its policy prior to June 2002. Due to its increasing level of charge-off losses, and in an effort to standardize its reconnection policy with that of its sister company, Kentucky Utilities Company, LG&E formalized a policy requiring arrearages to be paid in full prior to reconnection, unless the arrearage exceeds $600; the payment is at least 75 percent of the arrearage; and the customer meets LG&E s guidelines for a good credit history.

The only exception to this policy is the Winter Hardship Reconnection Policy, 807 KAR 5:006, Section 15. This policy applies from November through March and requires an electric or gas utility to reconnect an indebted customer who has a certificate of need from Human Resources; pays one-third of the indebtedness or $200, whichever is less; and agrees to a payment plan to be current by October 15. A certificate of need is available to any customer eligible for energy assistance or whose gross income is at or below 130 percent of the poverty level. Thus, low-income customers will be reconnected during the winter upon payment of only one-third of their indebtedness.

Since Commission regulations do not require a utility to reconnect service without full payment of arrearages (except for low-income customers during the winter), the prepaid meter program provides a voluntary option for disconnected customers to regain their service. The fact that disconnected customers may be financially unable to regain service as credit customers does not render the prepaid meter program involuntary or mandatory.

Deviation from 807 KAR 5:006, Section 14

To the extent that a deviation is needed, it will apply only to the period when the meters operate in prepay mode. During the pilot, the meters actually functioned as prepay meters only from April 1 through October 31. For the remaining months, November 1 through March 31, the meters ran in credit mode and prepay meter customers were subject to the same disconnection rules as traditional credit customers. MHNA/POWER and KACA/CAC ask that these periods be set out in LG&E s tariff for the program. LG&E states that it prefers having some latitude in setting the period that the meters run in credit mode. The AG does not specify what the credit mode period should be, but does argue that it should be established by the Commission. Given the unpredictable nature of Kentucky s weather and given that our jurisdictional gas distribution utilities, LG&E included, view the period November through March to be the traditional heating season months, we find that the prepaid meters should be programmed to run in credit mode from November 1 through March 31. We also find that this should be set out in LG&E s tariff, subject to modification only upon application and Commission approval.

Requiring all prepaid meters to operate in credit mode during the winter renders the deviation request for notice of service terminations for non-payment an issue only for the remaining 7 months of the year. A similar deviation was requested and granted for the pilot program. As noted in our approval of that request, the loss of service during the period when the meters run in credit mode is due to the customer s failure to replenish the prepaid energy on his payment card and prepay meter. LG&E does not initiate the terminations of service and it has no advance knowledge of when customers allow their prepaid usage to run down to zero. Given that customers are not seeking LIHEAP crisis funds during the period when the meters operate in prepay mode, and considering that LG&E does not initiate the service termination in a traditional sense, we find that the request to deviate from the requirements of 807 KAR 5:006, Section 14, should be granted.

<u>Third-Party Evaluation</u>

MHNA/POWER, KACA/CAC, and the AG all argue that an evaluation by an independent third party is needed in order to assess the program properly. LG&E disagrees, claiming it obtained all the information it needed on the pilot through its surveys and focus groups. Although the information may have met LG&E s needs, the needs of the Commission and interested stakeholders are not necessarily consistent with those of LG&E. The intervenors positions on what such an evaluation should cover and the manner in which the third-party evaluator is chosen differ, but there is a consensus that an independent evaluation should be performed.

The Commission finds that an independent evaluation should be performed in the near future to determine, at a minimum: (1) whether the program is meeting its goals and is being offered on an optional basis; (2) whether the program should be continued; and (3) if continued, whether there are changes that should be made to improve the program. The final scope of this evaluation will be determined by the Commission. Consistent with decisions in other cases involving trial programs not previously implemented in Kentucky, such as LG&E s original demand-side management programs and Columbia Gas of Kentucky s small volume transportation program, 3 years after the expansion of the program the Commission will select an outside consultant to perform an evaluation pursuant to the management audit statute, KRS 278.255. Upon completion, the evaluation will be subject to review in a formal case.

LIHEAP Benefits

MHNA/POWER and KACA/CAC contend that the alternative disconnection notice, or brown bill, developed by LG&E to enable low-income customers to qualify for LIHEAP funds is inadequate. LG&E used this alternative brown bill during the pilot with the agreement of KACA. However, because the alternative brown bill is less specific in some areas than the brown bill provided to traditional credit customers and includes an estimate of when a customer might lose service, the intervenors argue that the federal agencies that provide LIHEAP s funding might find Kentucky to be in violation of the statutes and regulations governing the LIHEAP program. For this reason, they maintain that LIHEAP customers should not be eligible to participate in the prepaid meter program.

LG&E contends that the alternative brown bill is adequate, based on its use during the pilot with affirmation by KACA that it was adequate to enable customers to receive LIHEAP funds. The AG points to the requirements in the annual plan Kentucky files with the federal government in order to obtain LIHEAP funds and to the information contained in the alternative brown bill. He reasons that the annual plan s language can be modified to treat prepaid gas or electric service in a manner similar to the treatment accorded to prepaid bulk fuel customers (those using propane, wood, or coal). He also points out changes that can be made to the alternative brown bill to minimize some of the problems with the brown bill that have been cited by MHNA/POWER and KACA/CAC.

Considering the issues addressed by the parties and their briefs on this subject, we find it unnecessary and inappropriate to adopt restrictions on the types of customers eligible for the program as advocated by MHNA/POWER and KACA/CAC. It appears that the AG has offered a number of constructive suggestions to cure the potential problems that MHNA/POWER and KACA/CAC believe arise from LG&E s alternative brown bill. LG&E and the intervenors should follow up on the AG s suggestions. With less restrictions in Kentucky s plan, in which the intervenors have a role, and with greater detail and specificity in the alternative brown bill, which LG&E controls, it appears that any potential problems can be remedied. However, if a federal agency makes a future determination that LG&E s alternative brown bill is insufficient for customers to qualify for LIHEAP crisis funds, this issue will then need to be re-examined. Low-income customers might then have to be ineligible for prepaid meters until an acceptable resolution is reached on eligibility for crisis funds.

Information and Reporting Requirements

The Commission finds that information concerning the prepaid meter program must be disseminated to LG&E s customers in a fair and objective manner, and that information must be easily understood by customers. Therefore, LG&E should file, within 30 days, copies of all promotional material related to the expansion of the program. In addition, LG&E should file all instructions and guidelines that its customer service representatives use or rely upon to inform customers about the program and to discuss and explain the program and its optional nature to customers.

To assist in monitoring the status of the expansion of the prepaid meter program, LG&E should file semi-annual reports containing information related to the number of participants, program costs, bad debt reductions, number of disconnections, etc. The specific information to be filed is set out in Appendix B, which is attached hereto and incorporated herein. Based on LG&E s timetable for beginning the expansion of this program, May 1, 2003 will be established as the effective date of the revised program tariff and the program expansion. On a going-forward basis, May 1 through April 30 will be considered the program year. The first semi-annual report, for the period of May 1, 2003 through October 31, 2003, will be due December 31, 2003, with each subsequent report to be filed at 6-month intervals thereafter, until otherwise ordered by the Commission.

FINDINGS AND ORDERS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. LG&E s proposed expansion of its prepaid meter program should be approved, with May 1, 2003 established as the effective date of the expansion, subject to the modifications and conditions contained in this Order.

2. LG&E s proposed facilities charge of $3.69 should be denied. A facilities charge of $2.00 should be approved effective May 1, 2003.

3. LG&E s Residential Prepaid Metering tariff should be revised to specify that the prepay meters will run in credit mode from November 1 through March 31 and that prepay customers will be subject to its traditional credit service disconnection policies during those months.

4. For the months of April through October, when prepay customers service terminates if the customers prepaid usage runs to zero, LG&E should be granted a deviation from the notice requirements for termination of service contained in 807 KAR 5:006, Section 14.

5. The Commission s process to select an independent third party to conduct an evaluation of the prepaid meter program should be initiated at the conclusion of the third year of the expansion program. The evaluation should, at a minimum, address: (1) whether the program is meeting its goals and is being offered on an optional basis; (2) whether the program should be continued; and (3) if continued, whether there are changes that should be made to improve the program.

6. LG&E should investigate and, if appropriate, adopt the AG s suggested modifications to the alternate brown bill sent to program participants as notice of termination of service in order to ensure that the participants continue to meet the requirements necessary to receive LIHEAP crisis funds.

7. LG&E, MHNA/POWER, and KACA/CAC should cooperatively pursue any necessary modifications to the provisions of Kentucky s annual LIHEAP plan to ensure that prepaid meter program participants will be eligible to receive LIHEAP crisis funds.

8. LG&E should file its revised Residential Prepaid Meter tariff within 30 days of the date of this Order.

9. LG&E should file promotional literature related to expansion of the prepaid meter program and the instructions and guidelines customer service representatives use when dealing with customers on matters related to the prepaid meter program.

10. LG&E should maintain records on the prepaid meter program that will enable it to report on a semi-annual basis the information set out in Appendix B.

IT IS THEREFORE ORDERED that:

1. LG&E s proposed expansion of its prepaid meter program is approved, with an effective date of May 1, 2003, subject to the modifications and conditions contained in this Order.

2. LG&E s proposed facilities charge of $3.69 is denied. A facilities charge of $2.00 is approved effective May 1, 2003.

3. LG&E shall revise its Residential Prepaid Metering tariff to include language specifying that the prepay meters will run in credit mode from November 1 through March 31 and that prepay customers will be subject to its traditional credit service disconnection policies during those months.

4. LG&E is granted a deviation from the notice requirements for termination of service contained in 807 KAR 5:006, Section 14, during the period April through October, when prepay service terminates if a customer s prepaid usage runs to zero.

5. LG&E shall investigate and, if appropriate, adopt the AG s suggested modifications to the alternate brown bill sent to program participants as notice of termination of service in order to ensure that the participants continue to meet the requirements necessary to receive LIHEAP crisis funds.

6. LG&E, MHNA/POWER, and KACA/CAC shall cooperatively pursue any necessary modifications to the provisions of Kentucky s annual LIHEAP plan to ensure that prepaid meter program participants will be eligible to receive LIHEAP crisis funds.

7. LG&E shall file, within 30 days of the date of this Order, its revised Residential Prepaid Meter tariff.

8. LG&E shall file, within 30 days of the date of this Order, copies of all promotional material related to expansion of the prepaid meter program and all instructions and guidelines that customer service representatives use when dealing with customers on matters related to the prepaid meter program.

9. LG&E shall maintain records on the prepaid meter program that will enable it to report on a semi-annual basis the information set out in Appendix B. LG&E shall file semi-annually, beginning on December 31, 2003 and every 6 months thereafter, reports containing the information set out in Appendix B.

Done at Frankfort, Kentucky, this 28th day of March, 2003.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00232 DATED March 28, 2003

Calculation of the Monthly Facilities Charge for prepaid customers based on the cost of an Ampy prepay meter with a portion of the reduction in bad debt write-offs included as a credit. Amounts are taken from Exhibit WSS-R2 of the Responsive Testimony of William Steven Seelye filed confidentially on behalf of LG&E on February 7, 2003.

			Amount
1.	Pre-Payment Meter Cost		[redacted]
2.	Plus Meter Installation Cost		$75.00
3.	Less Cost of Existing Meter		$25.00
4.	Total Customer-Specific Investment		[redacted]
5.	Carrying Charge Rate		16.44%
6.	Carrying Cost (Line 4 times Line 5)		[redacted]
7.	Transaction Costs		$18.00
8.	Administration Costs		$0.00
9.	Expansion Fixed Costs		$2.29
10.	Reduction in Short-Term Borrowing		($4.66)
11.	Gross Reduction in Bad Debt Write-Offs	($37.17)	
	Less Portion to Benefit Non-participants	[redacted]	
	Net Reduction in Bad Debt Write-Offs		[redacted]
12.	Total Annual Customer Specific Costs (Sum of Line 6 through Line 11)		$24.00
13.	Monthly Facilities Charge (Line 12 divided by 12)		$2.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00232 DATED March 28, 2003

LG&E s reports on the prepaid meter program shall include the following information:

1. The number of program participants on the first day of the reporting period and at month s end for each month in the reporting period.

2. A schedule identifying, by category and amount, all costs of the prepaid meter program for the reporting period.

3. For each participant joining the program, the amount of arrearage when the participant joined the program and at the end of the reporting period.

4. The number of disconnections by month, or the number of times that participants permitted their prepaid usage to run to zero from November through March; the total amount of time disconnected customers were without service; and a schedule of how often participants disconnected [similar to pages 6 and 7 of SS Exhibit C in LG&E s May 31, 2002 filing].