LG&E ENERGY

Kent W. Blake
Director
State Regulation and Rates

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PUBLIC SERVICE COMMISSION

February 10, 2006

Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602

Case No. 2006-00061

Re: Letter of February 1, 2006 concerning Behavioral Scoring Model

Dear Ms. O'Donnell:

Thank you for your letter of February 1, 2006 requesting an explanation of Louisville Gas and Electric Company's ("LG&E") use of a behavioral scoring model to calculate a risk factor for each of its customers.

We always welcome the opportunity to share with the Commission information on our policies and procedures. A brief review of some historical statistics may provide a better understanding of the reasoning behind this decision. Prior to September 1, 2005, both Kentucky Utilities Company ("KU") and LG&E regularly mailed termination notices (also known as "brown bills") to all customers who were delinquent in their payments, with some exceptions based upon the amount past due. Brown bills were sent within four (4) days following the due date for payment of the customer's regular monthly bill. In the past three years, LG&E issued an average of 514,000 termination notices annually, while actually disconnecting approximately 60,000 customers annually. Over the same three year period, KU issued an average of 1,083,000 termination notices annually, while actually disconnecting approximately 73,000 customers annually.

Based upon the wide discrepancy between termination notices issued and customers actually disconnected and the related burden on our Companies and our customers, a business decision was made to employ a statistically-based model that would score customers according to their individual payment habits. Termination notices would then be sent to those customers whom the model deemed were more "at risk" of not paying their bill based upon their payment history.

As you know, Commission regulation 807 KAR 5:006, Section 14(1)(f)1 governs the issuance of termination notices by utilities for nonpayment of electric or gas bills. This regulation provides that "[a] utility *may* terminate service at a point of delivery for nonpayment of charges incurred for utility service at that point of delivery; however, no utility *shall* terminate service to any customer for nonpayment of bills for any tariffed charge without first having mailed or otherwise delivered an advance termination notice which complies with the requirements of Section 13(5) of this administrative regulation." Further, an electric or gas utility proposing to terminate service for nonpayment is required to "mail or otherwise deliver to that customer ten (10) days' written notice of intent to terminate." In addition, "[u]nder no circumstances shall service be terminated before twenty-seven (27) days after the mailing date of the original unpaid bill."

Before implementing this new model, LG&E and KU did not always send a termination notice to every customer who was late in making a payment. KU required a minimum threshold of $25 delinquent dollars before sending a termination notice, while LG&E required a minimum threshold of $100 delinquent dollars. In addition, since 1987, if a KU customer was rated as a "good" customer, in terms of payment history, no termination notice was sent unless the customer was delinquent by at least two bills (current bill plus one). The scoring model now used by LG&E and KU simply provides a more consistent and objective application of its business policy of sending termination notices to those customers most at risk of not paying their utility bills. Customer service representatives have no latitude to change the model, so all customers are treated in precisely the same manner. LG&E and KU continue to abide by the Commission's regulations on notice for terminating service, since no customer is ultimately terminated for nonpayment without first having received the required notices.

As noted in your letter, Commission regulation 807 KAR 5:006, Section 5(1) and (2), requires prior approval of any special rule or requirement for receiving utility service and prohibits the denial of service by a utility for "failure to comply with the utility's rules which have not been made effective in the manner prescribed by the [C]ommission." The use of this behavioral scoring model is, however, simply an example of one of the Companies' business policies that do not impose additional conditions for receiving utility service, but instead govern how we deal with customers. It does not violate any Commission regulation or any provision in the Companies' tariffs.

Your letter also requested a complete description of the behavioral scoring model. This model is based upon a scorecard developed by Total Solution, Inc. (TSI) and implemented at a number of large utilities across the U.S. We are attaching for your information an explanation of the Companies' use of this model, which includes redacted information related to the TSI Scorecard, its attributes and weighting. All information regarding the TSI Scorecard, its attributes and weighting are proprietary and confidential, pursuant to a signed confidentiality agreement with TSI. This information is being provided to the Commission in order to address its questions pursuant to a Petition for Confidential Protection.

A meeting to discuss the model was originally scheduled for September 9, 2005 with the Public Service Commission Consumer Affairs Division. Although John Wolfram (Manager, Regulatory Affairs) and Mike Cooper (Manager, Remittance & Collections) arrived for the meeting at the Commission's offices on September 9th, they were advised that no one from the Consumer Affairs Division was available. At the Companies' request, Matt Rhody agreed to meet with our representatives though he was not aware of the meeting prior to our arrival. We discussed the model, provided copies of the presentation, asked that the information be distributed to others in the Consumer Affairs Division, and encouraged anyone with questions to call.

In addition, I thought you may wish to know that, in response to customers' concerns that they are unable to apply for certain types of financial assistance without a notice of termination, we asked the Kentucky Association for Community Action (Kentucky's LIHEAP administrator) to agree to accept a regular monthly bill with a past due balance from customers applying for LIHEAP assistance. In fact, an e-mail was sent on January 30, 2006, from the Kentucky Association for Community Action to all their statewide branches, instructing them to accept a regular monthly bill with a past due balance in lieu of a termination notice, in order to qualify for LIHEAP Crisis funds.

I hope that this letter and its attachments provide sufficient information to address the concerns contained in your letter. However, if you have any questions, or need any additional information, please do not hesitate to contact me at your convenience.

Sincerely,

Kent W Blake

Kent W. Blake

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

LETTER OF BETH O'DONNELL CONCERNING THE BEHAVIORAL SCORING MODEL UTILIZED BY LOUISVILLE GAS AND ELECTRIC COMPANY

Case No. 2006-00 061

PETITION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR CONFIDENTIAL PROTECTION

Pursuant to KRS 61.878 and Section 7 of 807 KAR 5:001, Louisville Gas and Electric Company ("LG&E") or Kentucky Utilities Company ("KU") (collectively, the "Companies"), on behalf of their affiliate, LG&E Energy Services, Inc. (now known as E.ON U.S. Services Inc.) and Total Solution, Inc. ("TSI"), petition the Public Service Commission of Kentucky ("Commission") to grant confidential protection to certain information pertaining to the TSI behavioral scoring model currently used by the Companies to calculate customer risk factors ("Information"). The Companies are submitting the Information pursuant to a request contained in a February 1, 2006 letter from Beth O'Donnell, Executive Director of the Commission, to Kent W. Blake, Director/State Regulations and Rates.

In support of its Motion, the Companies state as follows:

1. The Kentucky Open Records Act exempts from public disclosure commercial information to the extent such disclosure "would permit an unfair competitive advantage to competitors of the entity that disclosed" the same. KRS Section 61.878(1)(c)1.

2. The Information subject to this Motion is limited to the data input in the TSI behavioral scoring model and the manner in which each input is weighed. The

Information is commercially sensitive and proprietary to TSI as a competitor in the industry and, pursuant to the contract between LG&E Energy Services Inc. and TSI, the Companies are prohibited from publicly disclosing this Information. Open disclosure of the Information in this regulatory context would allow the competitors of TSI to use this Commission's processes as a means of securing an unfair competitive advantage against TSI. Disclosure of the confidential business information of TSI would afford the competitors of TSI the ability to utilize its proprietary models to the detriment of TSI.

3. All of the Information is generally recognized as commercially sensitive and proprietary, distribution of the Information within the Companies is limited to those employees who have a business reason to have access to the information, and is not the type of information that is disclosed to the public.

4. In accordance with the provisions of 807 KAR 5:001 Section 7, the Companies are filing one copy of the above-referenced Information with the confidential material highlighted and ten (10) copies without the Information.

WHEREFORE, LG&E and KU respectfully request that the Commission grant confidential protection as requested herein.

Respectfully submitted,

Elizabeth L. Cocanougher / AKS

Elizabeth L. Cocanougher
Senior Corporate Counsel
E.ON U.S. LLC
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P.O. Box 32010
Louisville, Kentucky 40232
(502) 627-4850

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Petition for Confidential Protection was served on the following this 10th day of February, 2006, by mailing a copy thereof, postage prepaid, through the U.S. Mail to:

Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, Kentucky 40602

Elizabeth L Cocanougher / AKS
Counsel for
Louisville Gas and Electric Company and
Kentucky Utilities Company

Case No. 2006-00061

CONFIDENTIAL INFORMATION REDACTED

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PUBLIC SERVICE COMMISSION

Behavioral Scoring Business Rules

- All KU & LG&E accounts (residential and commercial) are scored each month, two days past the bill due date (during the "grace" period between bill due date and termination notice issuance date).
- The scoring process begins when KU and LGE send a file extract of all CIS accounts to the behavioral scoring model server. The data contained in this file is as follows:

LGE	KU
Company Indicator	Company Indicator
Account Type: • RES • COM • IND • MUN	Account Type: • RES • COM • GOV
Account Age: • NEW – for accounts < 10 months old. • ACT – for accounts > 10 months old • FIN – for finaled, inactive or charged off accounts	Account Age: • NEW – for accounts < 10 months old. • ACT – for accounts > 10 months old • FIN – for finaled, inactive or charged off accounts
Account Number	Account Number
Account Type: • R = residential • L = large commercial • S = small commercial • I = industrial • M = municipal	Account Status: • A = Active • C = Charged Off • D = MERC Charged Off • F = Finalized • I = Inactive • J = John Dough • L = Landlord • M = MERC only • N = New Account • S = Settlement
	Revenue Class
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	[redacted]
Total Account Balance (total due + split $$)	

[redacted] (separated into 4 buckets)	[redacted] (separated into 4 buckets – current, 30, 60, and 90 day arrears)
Bank Draft Indicator (Y/N)	Bank Draft Indicator (Y/N)
Budget Indicator (Y/N)	Budget Indicator (Y/N/W) W = previous budget customer, but has been removed. Does not show up in credit history.
	Credit Rating (G, H, I, P, Z)
LIHEAP Indicator (Y/N and will include all types of assistance)	Assistance Indicator (Y if LIHEAP or HEA)
NSF Count (36 months)	NSF Count (18 months)
DFAC Payments Left to Complete	
	Number of Broken Credit Arrangements
	$$ Amount of Delinquent Credit Arrangements
	Final Bill Amount (if finaled, inactive or charged off)
Deposit Amount on Hand	Deposit Amount on Hand
Deposit Amounts Remaining to be Billed	Deposit Amounts Remaining to be Billed
Number of UAR's/diversions on Current Account	Number of UAR's/diversions on Current Account

- Customer accounts begin each month with [redacted] points. Points are then added or subtracted, based on the customer's behavior with respect to the following attributes below (and in bold/underline above). The remaining fields indicated in the table above are used only for validation purposes, not for scoring.

[redacted]

- Scores can range from [redacted], according to the scale below, and are grouped into the segments indicated:
  - [redacted] (Excellent – Segment 1)
  - [redacted] (Fair – Segment 2)
  - [redacted] (Poor – Segment 3)

- Once the score and segment are calculated, this information is sent back to CIS. Neither the score nor the segment will be viewable.

- The calculated Segment then drives the creation of a termination notice for a particular KU customer, according to the rules below. For comparison purposes, the last row (Existing) depicts the previous (prior to model implementation) KU termination notice logic. No/Yes indicates whether or not a termination notice will be sent.

Segment Score	Balance Threshold	Arrears 1-30 > $.01	Arrears 31-60 > $.01	Arrears 61-90 > $.01	Arrears 91+ > $.01
1 – Low	< $25	No	No	No	Yes
	≥$25	No	No	Yes	Yes
2 – Med	< $25	No	No	No	Yes
	≥$25	No	Yes	Yes	Yes
3 - High	< $25	No	No	No	Yes
	≥$25	Yes	Yes	Yes	Yes
Existing	< $25	No	No	No	Yes
	≥$25	Yes	Yes	Yes	Yes

For LG&E, a slightly different approach will be used. The main reason for the different methodology is to accommodate the "late payment" rule. This rule states that any customer paying an amount equal to the current bill, plus $10 or 10% of the arrears balance, must be considered a payment of the current bill and cannot be charged a late payment penalty. For this reason, a "two pass" approach will be used.

Acct		Segment Value	Arrears 1-30	Arrears 31-60	Arrears 61-90	Arrears 91+	Threshold = $100 Balance	Total Points	Brown Bill (Y/N)
A		1 – Low	$75	$50	$0	$0	$125		
	Points	1	1	1	0	0	1	4	No
B		2 - Med	$150	$0	$0	$0	$150		
	Points	2	1	0	0	0	1	4	No
C		3 – High	$25	$1	$0	$0	$26		
	Points	3	1	1	0	0	0	5	Yes

[redacted]