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April 9, 2007

VIA HAND DELIVERY

RECEIVED

APR 09 2007

**PUBLIC SERVICE
COMMISSION**

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

**Re: In the Matter of Joint Application of Louisville Gas and Electric Company
and Kentucky Utilities Company for Approval of their Proposed Green
Energy Riders, KPSC Case No. 2007-00067
Our File No.: 400001/126892**

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten (10) copies of the Response of Louisville Gas and Electric Company and Kentucky Utilities Company to Comments Filed on Behalf of the Attorney General in the above-referenced matter. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the two additional copies provided and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Very truly yours,

J. Gregory Cornett

JGC/cja
Enclosures
cc: Office of the Attorney General (w/Encl.)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

APR 09 2007

PUBLIC SERVICE
COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND)
ELECTRIC COMPANY AND KENTUCKY UTILITIES)
COMPANY FOR APPROVAL OF THEIR PROPOSED) CASE NO. 2007-00067
GREEN ENERGY RIDERS)

RESPONSE OF LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY TO COMMENTS
FILED ON BEHALF OF THE ATTORNEY GENERAL

* * * * *

Joint Applicants, Louisville Gas and Electric Company and Kentucky Utilities Company (the "Companies"), by counsel and in compliance with the agreement reached during the March 16, 2007 Informal Conference, hereby respond to the Comments filed on April 2, 2007 by the Kentucky Attorney General (the "AG"). The Companies acknowledge and appreciate the AG's general praise for the Companies' proposed Green Energy Riders, and offer the following in response to the AG's specific offered provisos.

Initially, with regard to the "Summary of Plan" section in the AG's comments, the Companies wish to clarify one point regarding their future plans for participation in the alternative energy market. Specifically, whether or not the Companies will eventually enter such market, and if so how the revenues from the proposed voluntary program will be used, has not been decided. The Companies are committed to evaluating renewable energy sources, and should the actual purchase or development of Green Power by the Companies become economically feasible in the future, the Companies may pursue such an option.

Turning now to the AG's specific comments and suggested contract modifications, the Companies first note that while the contract with 3 Phases Climate Solutions, LLC ("TPCS") has already been negotiated and executed, it is subject to renegotiation and renewal after three years. The Companies will certainly consider the AG's comments on the contract as it evaluates the agreement during the initial three-year term and as it considers renewal and renegotiation for an additional term. In the meantime, those specific suggestions are addressed within the response to the comments as set forth below.

The AG has first commented that it would be helpful to refer to at least one existing program of a similar nature, and to draw comparisons thereto, before the Commission rules on the pending Joint Application. The Companies provide reference to the program of Consumers Energy in Michigan. Like the program proposed by the Companies, Consumers Energy has a "block" option with pricing at \$2.50 for a 150 kWh block of green energy, that energy does not come from within the utility's own system, and customers are required to remain in good standing in order to remain on the voluntary program. Further information is available at <http://www.consumersenergy.com/welcome.htm?/products/index-nomargin.asp?asid=672>. In addition, as set forth in Table 18 in the Trends in Utility Green Pricing Programs report attached to Mr. Wolfram's testimony herein, 32% of green energy programs in the United States in 2005 were supplied wholly through RECs.

The AG has also raised some concern about the flat price negotiated for Renewable Energy Certificates ("RECs") under the agreement with TPCS, though he agrees that TPCS is entitled to some incentive. While the Companies certainly share the AG's concern for reasonable pricing, they believe that goal has been well met here. The fixed price negotiated by the Companies places volumetric and price risks on TPCS so that the Companies' participating

customers are not floating with the market on availability and pricing of RECs. Moreover, the Companies' negotiated pricing is well below the average market prices for utility based programs in the country. Specifically, as set forth in Table 20 in the Trends in Utility Green Pricing Programs report, price premiums for energy-based programs averaged 2.36¢/kWh in 2005. In comparison, the price premium for the Companies' proposed Small Green Energy Rider is only 1.67¢/kWh (contribution divided by kWhs per block), while the premium for the proposed Large Green Energy Rider is just 1.3¢/kWh (contribution divided by kWhs per block).

Third, the AG has raised a concern that environmental benefits of RECs might accrue somewhere other than in the Companies' respective service territories. At present, the existence of renewable energy sources in either of the Companies' service territories is very limited at best, and for that reason the Companies' proposal centers around purchase of only RECs from approved sources within primarily contiguous states, as set forth on page 9, section IV of Exhibit B to the Companies' Agreement with TPCS. While those sources may well not be located within the Companies' service territories, the environmental benefits from such sources is not limited to a specific territory and can be felt throughout the region by partially or wholly offsetting the use of energy produced through the burning of fossil fuels in the region. Given the need to fully gauge customer acceptance and the economic viability of such resources, the long lead time involved in actually developing the resources, and the existing demand for some level of Green Power program, the Companies believe it best to proceed as they have proposed for the immediate future. Ultimately, this program may help to spur development of additional renewable energy sources within the Commonwealth.

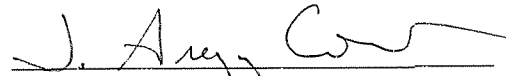
Next, the AG seeks to preclude the creation of a deferred account or regulatory asset and to cap the recovery of the Companies' administrative costs associated with the proposed

program. Because the Companies have not sought the creation of any deferred account or regulatory asset, or asked for any rate recovery, in this proceeding, there is no need for the Commission to consider the AG's request at this time. The proper forum for consideration of such issues is a general rate case or any other proceeding in which rate recovery is actually sought by the Companies. Until then, consideration of these issues is premature and inappropriate.

Finally, the AG has asked that the Companies be required to plainly advise their customers that their contributions toward RECs are non-refundable and that environmental benefits may accrue outside the Companies' service territories. The Companies agree that consumer education is a priority within this program, and do intend to clearly advise their customers on these issues. Specifically, customers will be advised that monies paid to the Companies are not refundable once the Companies have completed the purchase of RECs for a billing period. To that end, the Companies are proposing further clarification to their proposed tariffs on this issue, as attached hereto. In addition, the Companies intend to advise their customers that environmental benefits of RECs purchased under the program are expected to accrue across the region generally.

WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request that the Commission consider their responses as set forth herein, and that it grant their Joint Application and approve their proposed green energy tariff riders, as amended here, as soon as practical.

Respectfully submitted,



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*Counsel for Louisville Gas and Electric
Company and Kentucky Utilities Company*

CERTIFICATE OF SERVICE

It is hereby certified that a true and accurate copy of the foregoing was mailed via first-class U.S. Mail, postage pre-paid, to:

Dennis G. Howard, II
Lawrence W. Cook
Office of the Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

this 9th day of April, 2007.



*Counsel for Louisville Gas and Electric
Company and Kentucky Utilities Company*