

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)
ELECTRIC COMPANY FOR AN ORDER)
APPROVING A RESPONSIVE PRICING)
AND SMART METERING PILOT PROGRAM)

Case No. 2007-00117

ATTORNEY GENERAL'S COMMENTS

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and tenders the following comments in the above-styled matter.

I. Summary of Plan

Louisville Gas & Electric Company (hereinafter referred to as "Petitioners") seek Commission approval of a pilot program to provide responsive pricing and smart metering technology for certain customers under the RS and GS rates. This program is proposed in response to the Commission's Order in Administrative Case No. 2006-00045 and in compliance with Section 3.6 of the Partial Settlement, Stipulation, and Agreement approved by the Commission in Case No. 2003-00433. The program proposes new tariffs for the RS and GS class of customers based on the cost of generation at various times of the day and year. The purpose of the program is to discern whether small customers (RS and GS ratepayers) will respond to the variable pricing proposed under the program to both reduce their demand during critical peak demand hours and shift variable demand to low peak hours. The Petitioner represents that it evaluated numerous, similar, programs offered by utilities in other jurisdictions and has based their proposal on the program offered by Gulf States Power. The Petitioner claims that the Gulf States program has been successful in achieving its goals of lowering critical peak demand, encouraging a shift of variable demand to low peak hours and allowing customers to reap the economic benefits of this reduced and/or shifted demand.

The proposed tariff for RS customers participating in the program varies from the low cost rate (P1) of 0.0399 \$/kWh to a critical cost rate (P4) of 0.30107 \$/kWh, while the proposed tariff for GS customers participating in the program varies from the low cost rate (P1) of 0.04400 \$/kWh to a critical cost rate (P4) of 0.30107 \$/kWh. It is proposed that approximately 87% of the hours in a year will be subject to the low and medium cost rates for each class and that approximately 12% of the hours in a year will be subject to the higher cost rates. The critical cost rate (P4) is limited by the Petitioner to 1% or 80 hours maximum per year for each class. While the low and medium cost rates are lower than the current RS and GS tariffs, the high and critical cost rates have rates that are significantly (approximately 2x-5x) higher than the current RS and GS tariffs. The program is designed to be cost neutral to participants who choose not to respond to the pricing signal and revenue neutral to the Petitioner.

The program is voluntary and for those who choose to participate in the program the Petitioner will install additional metering, appliance control and energy use display equipment. A participant may withdraw from the program at any time but will be ineligible to participate in the pilot program in the future and will also be responsible for the uncollected customer specific costs. A “control” group is also proposed to collect additional data to be used in the evaluation of data gathered from the program participants. This control group will have varying levels of the same equipment installed but will not be subject to the tariffs proposed under the program. Each participant will be assessed the customer specific costs of the energy use display and the associated communications card with a cost per participant of \$193.00 and a monthly Customer charge of \$10.00/month for RS customers and \$20.00/month for single-phase GS customers and \$24.00/month for three-phase GS customers. Other program costs, the non-customer specific costs, are proposed to be recovered from all RS and GS customers through the existing DSM Cost Recovery Mechanism. The proposed pilot program costs, including both specific and non-specific customer costs, total \$1,946,849.00.

Under the program, each participant will receive the pricing signal from the Petitioner indicating which tariff is currently applicable to their use of electricity by way of the proposed

energy display unit which is installed in each participant's home or facility. The proposed display unit provides a visual signal to indicate the different tariff costs. This visual signal incorporates both a digital numerical readout of the applicable tariff and a variable four color "band" to indicate the applicable tariff. The Petitioner proposes to notify customers via a separate signal to the display unit or by some other method (i.e. email) 30 minutes prior to the implementation of the critical cost tariff to allow the customer time to respond.

If the program is approved, the Petitioners will evaluate the performance of the pilot program and file its report with the Commission within 6 months after the first three years of implementing the plan.

II. Attorney General's Comments

From a general perspective, the Attorney General applauds Petitioners' initiative, subject to the following provisos.

First, the Attorney General's comments should not be construed in any manner as acquiescing to the inclusion of any administrative costs in a future rate case.

Second, the Attorney General urges that the Commission require Petitioners to forthrightly and plainly advise participants as to the proper use and operation of all equipment installed for their use under the program, to advise participants regarding the different tariffs and when each tariff is expected to be in effect and on the options which a participant can take to reduce their demand when those rates are in effect.

Third, the Attorney General notes that the Petitioner has stated that the number of hours to which a participant is subject to the critical cost (P4) rate is variable based upon demand during critical events up to a maximum of 1% or 80 hours per year. However, in order for Petitioner to achieve revenue neutrality under the program, this figure represents a fixed quantity of critical cost (P4) rate hours. Referring to the Application of the Petitioner, Exhibit KWB-3, it is apparent that the critical cost (P4) rate revenue was calculated using a fixed quantity of hours. Further, in the Petitioner's Response to Supplemental Request for Information Posed by the Attorney General, specifically question 4B, the Petitioner states that:

“[i]t is also important to note that the calculation of revenue neutrality for the responsive pricing program shown in Exhibit KWB-3 in the Company’s application assumed 80 critical cost hours. In the event the number of critical cost hours was lower, it would require an upward adjustment to the remaining P1, P2 or P3 rates.”

The Attorney General would clarify that unless the Petitioner is willing to forgo revenue under the program, the time of critical cost (P4) hours at 1% or 80 hours per year represents a fixed quantity.

Fourth, the Petitioner proposed that the cost of the customer specific equipment to be installed be recovered directly from each program participant over a 6 month period (approximately \$32.00/mo.). The Attorney General believes that such costs may be burdensome to lower income households and, therefore, limit their participation and representation in the program. The Attorney General believes that participation in the program by persons representative of all income levels is important in order to obtain meaningful and representative data. Therefore the Attorney General would suggest that for lower income participants, the Petitioner consider subsidizing all or part of the customer specific costs for the duration of the program to ensure that the lower income demographic is adequately and fairly represented or that, at a minimum, the customer specific costs for such participants be collected over a longer period (i.e. 12 months @ \$16.00/mo.).

Fifth, the Attorney General notes that the program is designed to be cost neutral to the participants. By inference, over a calendar year or from the beginning of the heating season to the beginning of the next, the participant should experience no changes assuming no conservation measures have been undertaken. Given this twelve month period as the time period against which the company will gauge the monetary consequences to the participant, the Attorney General suggest that the Petitioner collect the customer equipment costs over a twelve month period.

Sixth, the Petitioner's objectives under the program are to encourage participants to reduce their demand during critical peak hours and to shift their variable demand to low peak hours. To evaluate whether these objectives are achieved, the Petitioner proposes to collect the data from participants in the program for a period of three years and then to issue a report detailing the results obtained under the program to the Commission within 6 months of the program end. However, the Attorney General believes that in order for the Commission to adequately monitor the program, interim reporting of preliminary data, along with any analyses, from the program participants is necessary. Therefore, the Attorney General suggests that the Commission require interim reporting on a yearly basis of the data collected, along with any analyses of the data, from program participants. The Attorney General suggests that such interim reports contain, at a minimum, 1) the current number of program participants, 2) the number of participants who have withdrawn from the program along with any reasons for such withdrawal, 3) the average, minimum and maximum monthly electrical usage and cost for program participants during each 12 month reporting period, 4) the average, minimum and maximum monthly electrical usage and costs for program participants for the 12 month period immediately preceding enrollment into the program, 5) the requirement that the Petitioner solicit and report any comments or suggestions of program participants, 6) the requirement that the Petitioner submit whether, in its' opinion, the program is achieving its stated objectives and Petitioner's evaluation of the comments and suggestions of the program participants, 7) the program costs to the date of the report along with the details of any deviations from the program budget submitted along with the application. The Attorney General suggests that such interim reports be made a part of the record and distributed to all parties in the matter.

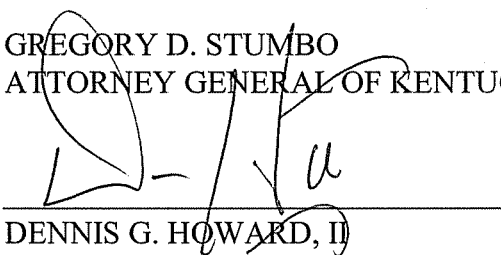
Lastly, the Petitioner suggests that the costs of the program be recovered from the RS and GS ratepayers through the DSM Cost Recovery Mechanism. However, the Attorney General would suggest that as both the Petitioner and the ratepayers share in the benefits of the program, it should also bear some of the costs. Therefore, the Attorney General suggest that the Petitioner

and ratepayers share equally in the cost of the pilot program such that only 50% of the program costs would be eligible for recovery by Petitioner through the DSM Cost Recovery Mechanism.

Subject to the above comments, the Attorney General would recommend the Commission approve the Application of Petitioner.

Respectfully submitted,

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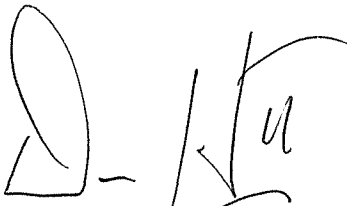
CERTIFICATE OF SERVICE AND NOTICE OF FILING

I hereby give notice that this the 24th day of May, 2007, I have filed the original and ten copies of the foregoing Attorney General's Comments with the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 and certify that this same day I have served the parties by mailing a true copy of same, postage prepaid, to those listed below.

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