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Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
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COMMISSION

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June 1, 2007

**RE: Application of Louisville Gas and Electric Company for an Order
Approving a Responsive Pricing and Smart Metering Pilot Program**
Case No. 2007-00117

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten (10) copies of Louisville Gas and Electric Company's ("LG&E") comments and clarifications in response to the Attorney General's Comments filed May 24, 2007 in this proceeding.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

Rick E. Lovekamp

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**APPLICATION OF LOUISVILLE GAS AND)
ELECTRIC COMPANY FOR AN ORDER)
APPROVING A RESPONSIVE PRICING) CASE NO. 2007-00117
AND SMART METERING PILOT PROGRAM)**

**LOUISVILLE GAS AND ELECTRIC COMPANY'S RESPONSE TO
THE COMMENTS OF THE ATTORNEY GENERAL**

Louisville Gas and Electric Company ("LG&E") hereby respectfully submits its comments and clarifications in response to the Attorney General's Comments, filed in this proceeding on May 24, 2007.

At the outset, LG&E would like to note that the Attorney General's Comments confirm that there is continued support for LG&E's proposed Responsive Pricing and Smart Metering Pilot Program ("Pilot") from the intervenors in this proceeding: "From a general perspective, the Attorney General applauds Petitioner's initiative . . ." ¹ Given such support for the Pilot, LG&E respectfully renews its request that the Commission issue an order approving the Pilot by June 30, 2007.

The Attorney General ("AG") qualified his above-quoted statement of general support of the Pilot with comments, which LG&E appreciates and has reviewed carefully. LG&E believes that the following responses and clarifications to the AG's comments ² should serve to alleviate any concerns the AG has expressed. For the sake of clarity, LG&E presents its responses below in the order in which the AG presented his comments.

¹ Attorney General's Comments at 3.

² The AG's first comment is a statement of his intent in offering his comments, and therefore does not require, nor would it be appropriate to offer, any response.

The AG's second comment urged LG&E to ensure that Pilot participants are fully advised of how to use their Pilot program equipment and how the Pilot rate structure works. LG&E responds that it has committed to make, and will in fact make, every reasonable effort to have pilot program participants fully familiar with all the appropriate equipment and the rate structure contained in the tariff. As LG&E stated in response to the AG's March 30, 2007 Request for Information No. 13:

The education effort directed toward customers participating in this program will be on-going. . . . A significant "educational" component will be included in the initial customer marketing effort, [and] on-going reinforcement of the means and ability for customers to make wise choices in their energy use and the timing of their use will be employed. Customer brochures, frequently-asked-questions, quick reference sheets, refrigerator magnets showing [the] pricing schedule, and web site information will all be used.

This robust educational effort is in LG&E's best interest, as well as the customers'. In order for the Pilot to produce useful data, Pilot participants must be fully informed concerning their equipment, rate schedule, and energy saving measures. Therefore, LG&E will use all of the means described above to ensure that Pilot participants are fully informed. However, the ultimate responsibility for a customer's energy consumption is the customer's, and is a product of the customer's choice.

The AG's third comment asserts that LG&E will in fact implement 80 P4 ("critical cost") rate hours each year. LG&E wishes to reiterate that 80 critical cost hours per year represents the *maximum* number of such hours that could be implemented each year. Although the Pilot's revenue-neutral rate structure was calculated assuming the implementation of all 80 critical cost hours each year, there is no tariff or other requirement compelling LG&E actually to implement all such hours.

The AG's fourth and fifth points appear to be based on a reasonable misunderstanding of the Pilot cost recovery structure. Based on this misunderstanding, the AG suggests that LG&E subsidize the customer charge for lower income customers and recover the equipment cost from all customers over the course of a full year. This misunderstanding likely resulted from the Company's restatement in this proceeding of the commitment it made to all parties during its last base rate case in Section 3.6 of the Settlement Agreement:

The customer-specific costs shall be recovered through a facilities charge incorporated into the applicable customer charges during the first six (6) months of the RTP pilot program. After six (6) months, the Utilities shall evaluate the level of participation in the pilot program and consider modifying the treatment of such customer-specific charges to encourage participation in the RTP pilot program.³

LG&E would like to eliminate this misunderstanding and any other potential confusion concerning the amount of customer-specific equipment cost recovery LG&E seeks from Pilot participants. As stated in response to the AG's March 30, 2007 Request for Information No. 18:

The facilities charge recovers the customer-specific costs of a communications card for the meter and EUD. The facilities charge is incorporated into the applicable customer charges pursuant to the Settlement Agreement and the resultant customer charges have been rounded to the nearest dollar. The incremental rounded amount for the facilities charge is \$2.26 per customer per month and \$27.12 per customer per year.

The facilities charge incorporated into the customer charges was designed to recover the customer-specific costs over the life of the installed equipment. The estimated cost of customer-specific equipment per Pilot participant is \$193 as shown in Exhibit KWB-3 to the Direct Testimony of Kent W. Blake in this proceeding. As a result, the Company will not recover the full amount of the customer-specific costs over six months or over the three-year pilot program.

³ *In the Matter of an Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company*, Case No. 2003-00433.

In turn, LG&E does not believe that it should extend the recovery period or subsidize any part of the customer-specific costs of the Pilot.

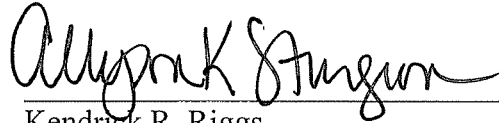
The AG's sixth comment suggests that LG&E submit annual reports into this record, which reports would provide seven types of data. LG&E accepts the AG's recommendation and will provide the requested seven types of data on an annual basis through reports that will be entered into the record of this proceeding. LG&E will also ensure that such data is included in the full Pilot reporting and evaluation it has already committed to make within six months of the end of the three-year Pilot term.

The AG's seventh comment, which asserts that LG&E should bear some Pilot costs because "both the Petitioner and the ratepayers share in the benefits of the program,"⁴ is in error. In fact, LG&E receives no financial benefit from the Pilot. All cost savings of the Pilot inure to the benefit of LG&E's customers, both Pilot participants and otherwise. For example, if Pilot customers shift sufficient load to lower-cost hours to prevent the need to run higher-cost units such as combustion turbines, Pilot customers save directly through lower energy costs, and non-Pilot customers save through lower fuel costs. Indeed, insofar as programs of this sort serve to reduce demand durably, the need to build additional generation is delayed, which provides additional rate benefits to LG&E's customers. Therefore, LG&E respectfully disagrees with the AG and renews its request for full DSM Cost Recovery Mechanism recovery of Pilot costs.

⁴ Attorney General's Comments at 5.

Dated: June 1, 2007

Respectfully submitted,

A handwritten signature in black ink that reads "Allyson K. Sturgeon". The signature is written in a cursive style and is positioned above a horizontal line.

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Company

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the above and foregoing Response to the Comments of the Attorney General was served, via United States mail, postage prepaid, and electronic email to the following persons on the 1st day of June 2007:

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