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**PUBLIC SERVICE
COMMISSION**

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**JOINT APPLICATION OF LOUISVILLE)
GAS AND ELECTRIC COMPANY AND)
KENTUCKY UTILITIES COMPANY) CASE NO. 2007-00161
FOR AN ORDER APPROVING A LARGE)
COMMERCIAL AND INDUSTRIAL)
REAL-TIME PRICING TARIFF)**

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 and Electric Company and Kentucky Utilities Company (hereinafter referred to as "Petitioners" or "Company") seek Commission approval of a real-time pricing pilot program for their large commercial and industrial customers. This program is proposed in response to the Commission's Order in Administrative Case No. 2006-00045. In support of its application, the Petitioners offer testimony from Kent W. Blake, Vice President of State Regulation and Rates with E.ON U.S. Services, Inc., and Sidney L. "Butch" Cockerill, Director of Revenue Collections with E.ON U.S. Services, Inc..

In designing the proposed pilot program, the Company reviewed similar RTP programs offered by various utilities. The programs reviewed by the Company included those offered by Duke Energy and Georgia Power. All of the programs reviewed were "two-part" type programs which provide that a participant's bill consists of two parts - a base bill consisting of a historical

“baseline” to be charged at the standard tariff, and an incremental charge based upon the deviation from the participant’s historical baseline which is charged or credited based upon the hourly pricing summed over all hours in the applicable billing period. In its application, the Company’s pilot program utilizes the above two-part approach. The pilot program is voluntary and is restricted to LG&E customers who have been served for at least one year under Rate LC-TOD, Rate LP-TOD and Rate LI-TOD and KU customers who have been served for at least one year under Rate LCI-TOD, Rate LMP-TOD and Rate LI-TOD. Customers choosing to participate in the pilot program must agree to remaining in the program for at least one year and either party may terminate participation thereafter by giving 30 days written notice.

Participants in the program must also have the correct metering system in place. In cases where a customer’s metering system is not adequate, the Company proposes to upgrade the metering system at no cost to the participant. It is anticipated that the majority of participants have the correct metering system and that any required upgrades will be merely software or communication board upgrades.

The purpose of the program is to discern whether users within the designated customer classes will respond to the posted next-day hourly pricing of electrical energy proposed under the program to reduce their overall demand and/or shift their variable demand to low peak hours.

The program provides that participants are to be charged a program charge of \$140.00 per month. This monthly fee is to cover the additional billing, administrative and communication costs related to the program. A draft program budget was submitted as part of the application and the program charge is based upon the participation of 180 eligible customers for the entire 36 month period of the program. The program charge appears to be reasonably related to the

Company's expenses and is relatively nominal for the size of customer participating in the program.

The program tariff is based on the cost of generation at various times of the day and year and is designed to be revenue neutral to the Company and cost neutral to participants who do not modify their load or consumption patterns under the program. For those customers participating in the program, the Company and the customer will jointly develop a "Customer Baseline Load" (CBL) based upon the participant's historical electrical usage over a designated 12-month period. The designated CBL period is not subject to change. The Company proposes that a participant's monthly bill will consist of their actual usage charged at standard tariff rates, plus the program charge, plus the sum of the hourly prices multiplied by the actual load per hour minus an adjusted CBL hourly factor. The adjusted CBL hourly factor is essentially a "correction factor" and consists of the actual load monthly total, multiplied by the ratio of the historical CBL per hour to the historical CBL monthly total. It is this "correction factor" that ensures revenue and cost neutrality. The Company provided various billing examples in response to the data requests of the Commission Staff and the Attorney General which illustrate the method of bill calculation proposed under the program.

To retrieve the hourly pricing data under the program, participants will be required to access a secure website which will be implemented by the Company as part of the pilot program. This pricing data will disseminated to participants no later than 4:00 p.m. and will reflect the pricing for the 24-hour period beginning the following day at 12:00 a.m.. As proposed, participants will only be able to access current day pricing data and the next day pricing data on website created for the program.

The Company states that it intends to educate participants concerning the pilot program primarily via the Company's major account representatives and that these representatives work with their assigned customers on an on-going basis to address any energy needs.

If the program is approved by the Commission, the Petitioners expect to implement the program and tariffs approximately eight months after the receipt of such approval. The program is anticipated to have an initial term of three years and the Company will file annual reports concerning the program with the Commission.

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 program costs in a future rate case.

Second, the Attorney General notes that continued support and interaction between the Company and participants is necessary to ensure successful results under the program and therefore, the Attorney General urges that the Commission require Petitioners to forthrightly and plainly advise participants regarding the program and to provide such on-going support as needed to assist participants in their efforts to reduce and/or shift their demand. In addition, the Attorney General urges that successful techniques to reduce demand and/or shift load be disseminated among both participants and non-participants to maximize any benefits under the program.

Lastly, 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

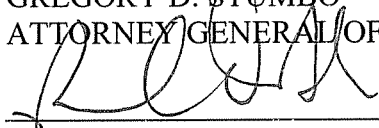
hours. To evaluate whether these objectives are achieved, the Petitioner proposes to collect data from participants in the program each year for a period of three years and issue annual reports detailing the results obtained under the program to the Commission.

The Attorney General believes that in order for the Commission to adequately monitor the program, such interim reporting should contain, at a minimum, 1) the current number of program participants, 2) the type of industry or primary business activity for each participant, 3) the number of participants who have withdrawn from the program along with any reasons for such withdrawal, 4) the average, minimum and maximum monthly electrical usage and cost for program participants during each 12 month reporting period, 5) the average, minimum and maximum monthly electrical usage and costs for program participants for the 12 month period immediately preceding enrollment into the program, 6) the requirement that the Petitioner solicit and report any comments or suggestions from program participants, 7) an evaluation by the utility of the impact of the program on its peak and/or base demand as compared to its historical data for the 12 month period immediately preceding implementation of the program, 8) 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, 10) in addition to the individual, yearly results, a cumulative comparison of the information furnished in item 4, 5, and 7, to allow year over year comparison of program results, 9) 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 reports be made a part of the record and distributed to all parties in the matter.

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

Respectfully submitted,

GREGORY D. STUMBO
ATTORNEY GENERAL OF KENTUCKY



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CERTIFICATE OF SERVICE AND NOTICE OF FILING

I hereby give notice that this the 12th day of July, 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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A handwritten signature in black ink, appearing to read 'MLK', written over a horizontal line.

ASSISTANT ATTORNEY GENERAL

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