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January 2, 2008

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PUBLIC SERVICE COMMISSION

HAND DELIVERED

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

RE: ***The Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company Demand-Side Management for the Review, Modification, and Continuation of Energy Efficiency Programs and DSM Cost Recovery Mechanisms***
Case No. 2007-00319

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten copies of the Direct Testimony of John Wolfram on behalf of Louisville Gas and Electric Company and Kentucky Utilities Company 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 enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions please contact me at your convenience.

Yours very truly,

W. Duncan Crosby III

W. Duncan Crosby III

WDC:ec
Enclosures
cc: Parties of Record

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY DEMAND-SIDE MANAGEMENT FOR THE REVIEW, MODIFICATION, AND CONTINUATION OF ENERGY EFFICIENCY PROGRAMS AND DSM COST RECOVERY MECHANISMS	)))))))	CASE NO. 2007-00319

DIRECT TESTIMONY OF
JOHN WOLFRAM
DIRECTOR, CUSTOMER SERVICE & MARKETING
E.ON U.S. SERVICES, INC.

Filed: January 2, 2008

Q. Please state your name and business address.

A. My name is John Wolfram. I am currently employed as Director, Customer Service & Marketing for E.ON U.S. Services, Inc., which provides services to Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies"). My business address is 220 West Main Street, Louisville, Kentucky 40202. A complete statement of my education and work experience is attached to this testimony as Appendix A.

Q. Have you previously testified before this Commission?

A. Yes. I have testified several times before the Commission, including in Case No. 2002-00029, wherein the Companies sought a certificate of public convenience and necessity ("CPCN") to construct two combustion turbines, and in Case Nos. 2005-00467 and 2005-00472, concerning the Companies' application for a CPCN to construct alternative transmission facilities. I testified most recently in the Companies' Green Energy Rider proceeding, Case No. 2007-00067.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain the significance of the Companies' proposed demand-side management ("DSM") and energy efficiency programs (collectively, "Energy Efficiency Portfolio" or "Portfolio") and to respond to certain criticisms of the Portfolio by the Attorney General of the Commonwealth of Kentucky (Office of Rate Intervention) ("AG"), the Community Action Counsel of Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"), and the Kentucky Association for Community Action, Inc. ("KACA").

Q. Why do the Companies believe it is important for the Commission to approve the proposed programs?

A. The Companies believe that energy efficiency is essential for their operations in the short- and long-term, and that significant initiatives in this area are crucial. The Companies' evidence in this proceeding shows that the proposed Energy Efficiency Programs will produce economic benefits[1] in the range of $471 - $505 million (present valued to 2007). These are striking savings, and the sooner the Companies can implement the Programs, the sooner the Companies' customers can begin to benefit from them.

Furthermore, the Companies believe that the proposed programs are consistent with the growing recognition of the importance of cost-effective energy efficiency initiatives across the utility industry at large and within Kentucky in particular. Indeed, there has been recent movement in this regard within the General Assembly. A clear thrust of the 2007 Energy Act is to encourage the development and implementation of energy efficiency programs; this is precisely what the Companies aim to do via the proposed Portfolio, even absent any revisions to the regulatory framework within which DSM / Energy Efficiency operates in Kentucky at present.

Q. Is the Companies' proposed Energy Efficiency Portfolio unconventional, revolutionary, or otherwise beyond the scope of traditional, long-standing regulatory policies or practices governing DSM / Energy Efficiency in Kentucky?

A. No. Though the proposed Portfolio is innovative in some respects, it is not unconventional in scope or application. The proposal, though of greater scale than the presently approved set of programs, adheres to conventional ratemaking methods and

[1] December 10, 2007 LG&E/KU Objection, pg. 2, inadvertently stated benefits as net.

cost-effectiveness criteria that have governed DSM / Energy Efficiency programs in Kentucky for many years and used throughout the industry. No new ratemaking methods are proposed; the Companies propose to operate these programs within the existing regulatory framework for programs of this sort, pursuant to the existing DSM statute and Commission precedent.

<u>AG's Arguments</u>

Q. Does the AG agree with the Companies' assessment of the cost-effectiveness of the Portfolio?

A. No. However, the AG's criticism is based on several analytic flaws.

Q. What methodological errors does the AG's benefit-cost analysis contain, and why is the Companies' analysis more reliable?

A. In his comments, the AG criticizes the Companies' Energy Efficiency Portfolio, using a method of benefit-cost analysis that is overly simple, flawed, and biased. For example, the AG's method ignores capacity savings and long-term program benefits, based on a methodology that is not one of the four Commission-mandated benefit-cost tests that are long-standing and widely accepted in the industry. In contrast, the Companies applied the four established tests, which indicate that the Energy Efficiency Portfolio on balance is cost-effective and should be approved as filed. The following two tables demonstrate the prejudice of the AG's analysis. The first table shows the difference in projected total benefits, and the second takes into account benefits and costs.

TABLE 1: TOTAL BENEFITS

	Commission-Approved Benefit-Cost Tests[2]				
Program	**Participant Test**	**Utility Cost Test**	**Total Resource Test**	**Ratepayer Impact Test**	**AG Savings Calculation[3]**
Residential Conservation	$ 11.6	$ 5.8	$ 10.5	$ 5.8	$ 6.4
Residential Load Management	51.2	138.5	155.0	138.5	14.6
Commercial Load Management	5.1	10.9	12.5	10.9	0.7
Res. Low Income Weatherization	30.8	8.5	23.9	8.5	10.1
Commercial Conservation/Rebates	274.1	204.6	204.6	204.6	88.5
Residential High Efficiency Lighting	116.0	86.3	86.3	86.3	88.7
Residential New Construction	15.1	9.3	13.4	9.3	3.5
Residential HVAC Tune Up	2.9	3.0	3.0	3.0	1.2
Commercial HVAC Tune Up	6.6	4.2	4.2	4.2	2.0
Customer Education & Public Information[4]	-	-	-	-	
Dealer Referral Network[4]	-	-	-	-	
Program Development and Admin.[4]	-	-	-	-	
Overall Portfolio	$ 500.3	$ 471.0	$ 504.6	$ 471.0	$ 215.7
All values are in millions of dollars					

The table below further shows how the AG's flawed analysis is clearly out of step with the results of the Commission's approved benefit-cost tests:

[2] All data for Commission-approved tests drawn from Application, Appendix B, and are present-valued to 2007.

[3] All data for the AG's Savings Calculation are drawn from his Amended Comments, and are in nominal, not present-valued, dollars.

[4] Benefits are captured in analysis of supported programs.

TABLE 2: BENEFIT/COST RATIOS

Program	Commission-Approved Benefit-Cost Tests[5]				
	Participant Test	Utility Cost Test	Total Resource Cost Test	Ratepayer Impact Test	AG Savings Calculations[6]
Residential Conservation	4.19	1.37	1.50	0.60	1.23
Residential Load Management	Infinity	2.67	3.75	1.90	0.21
Commercial Load Management	Infinity	4.52	6.12	2.09	0.23
Res. Low Income Weatherization	Infinity	0.81	2.28	0.37	0.78
Commercial Conservation/Rebates	4.30	11.21	3.64	0.89	3.95
Residential High Efficiency Lighting	11.04	4.40	2.87	0.64	3.68
Residential New Construction	2.23	1.49	1.09	0.61	0.45
Residential HVAC Tune Up	7.66	1.13	1.10	0.62	0.41
Commercial HVAC Tune Up	20.32	2.04	1.79	0.53	0.76
*Customer Education & Public Information	-	-	-	-	-
*Dealer Referral Network	-	-	-	-	-
*Program Development & Administration	-	-	-	-	-
Overall Portfolio	**7.02**	**3.31**	**2.80**	**0.89**	**1.19**
*Benefits are captured in analysis of supported programs					

The large difference between the AG's benefit-cost results and those produced by the Commission's four long-standing and well-accepted benefit-cost tests show that the AG's method of analysis simply does not provide a reasonable projection of the benefits the Companies' customers reasonably can expect from the proposed Energy Efficiency Portfolio. Indeed, to the Companies' knowledge, a benefit-cost methodology like the AG's has never been used in a proceeding of this kind.

Q. The Companies have asserted that DSM and energy efficiency programs produce capacity savings, and that the Companies' Residential and Commercial Load Management Programs in particular produce such savings. How has the AG addressed such savings in his benefit-cost analysis?

A. The AG fundamentally errs when he asserts that the Load Control program does not

[5] All data for Commission-approved tests drawn from Application, Executive Summary at 8.
[6] Ratios calculated by dividing the AG's proposed savings by program costs.

"avoid" but "merely delays" the need for capacity additions. Although new generation will be needed in the future to supply the demand of new industry and a growing customer base, the incremental capacity savings from the load control program are permanent – so long as the program remains in place. The program has been very successful to date by avoiding the need to build in excess of 100 MW of additional capacity – effectively avoiding the need to build an additional combustion turbine – which has resulted in significant customer savings.

Q. The AG has asserted in this proceeding that the Companies will not lose energy sales as a result of implementing the Energy Efficiency Portfolio. Will the Companies in fact lose energy sales due to the Portfolio?

A. Yes. The AG has again erred in asserting that anticipated energy reductions from the proposed programs do not produce "lost revenues" for the Companies and that lost sales are a "fiction." In fact, the Companies will lose energy sales and the associated revenue as the programs take effect. It is for this reason that Kentucky statute and established Commission precedent allow for recovery of lost sales revenue for DSM and energy efficiency programs. Though the Companies' overall energy sales are increasing, implementing the Energy Efficiency Portfolio programs will allow sales to increase less than they otherwise would absent the programs, just as the Companies' current DSM programs in fact have done. Moreover, the Companies propose in this proceeding to recover lost sales revenue for only thirty-six months instead of the full benefit period that the Energy Efficiency Portfolio programs will be in effect. By any objective measure, this is a modest proposal, authorized by statute, and wholly in accord with the Commission's past DSM orders. It should not be rejected.

Q. In addition to lost sales revenue recovery, should the Commission allow the Companies an economic incentive on all the programs in the Energy Efficiency Portfolio?

A. Yes. Though the AG asserts that the Commission should deny the Companies an economic incentive for certain elements of the Energy Efficiency Portfolio, this proposal ignores Commission precedent. A piecemeal, cafeteria-style approach to calculating the DSM incentive is inappropriate because all aspects of the Energy Efficiency Portfolio are directed toward encouraging customers to reduce demand and to use less energy – which is the only product offered by the utility. To motivate the Companies to do what otherwise would be against their interest (i.e., to encourage less energy use) is precisely why the General Assembly created the DSM incentive, and the Commission should apply the incentive to the entire Energy Efficiency Portfolio.

Q. The Portfolio contains a program to promote publicly the other Portfolio programs, as well as to provide energy efficiency education, which the AG proposes to curtail substantially. Should the Commission adopt the AG's reduced energy efficiency promotion and education proposal?

A. No. Although the AG "emphatically" asserts that he supports energy efficiency education, the AG's contentions in fact emphasize curtailing program promotion and consumer education. Yet the promotion of, and education about, energy efficiency is especially critical in Kentucky, where energy costs are generally low and the potential for energy efficiency is well-recognized as significant. Promotion and education are necessary for the sustainability and growth of energy efficiency in the Commonwealth, and should be approved as filed.

Q. Why should the Commission reject the AG's recommendations to reduce various Portfolio program incentives and subsidies, which the Companies proposed to induce customers to participate in Portfolio programs?

A. The Companies designed the Energy Efficiency Portfolio programs to remove participation barriers and to optimize program effectiveness. The AG, however, proposes numerous modifications to particular programs in the Energy Efficiency Portfolio, all of which would create barriers to participation or otherwise reduce program effectiveness. For example, the AG recommends eliminating the Low Income Weatherization Program ("WeCare"), which provides free energy efficiency audits and associated services and products to people who otherwise most likely could not afford such audits, services, or products. The Companies created the incentives and subsidies contained in their cost-effective Portfolio to remove barriers to participation and to optimize the programs' success. Therefore, the AG's proposed reductions in subsidies, rebates, or incentives should not be approved.

Q. Why are the AG's criticisms of the Companies' proposed Program Development and Administration program incorrect?

A. The AG proposes that much of the Program Development and Administration effort be disallowed, yet such activities are necessary for the sustainability of the Energy Efficiency Portfolio programs (i.e., for the growth of existing programs and the development and implementation of new programs). Indeed, the management budget of the Companies' Energy Efficiency Operations department (which is currently subject to full DSM ratemaking treatment in the presently-approved program) is included in this program. Also, like the Companies' proposed promotion and education program, the costs addressed in this program are necessary to the sustainability of the Energy Efficiency Portfolio overall. The Program Development and Administration program should, therefore, be approved as filed.

CAC and KACA Arguments

Q. CAC and KACA have argued that the entities that operate the U.S. Department of Energy weatherization programs should be awarded a contract to operate the Companies' proposed WeCare program. Why do the Companies believe that a competitive bidding process is preferable to the CAC and KACA proposal?

A. The Companies believe that a competitive bidding process is the only appropriate method for determining the most reasonable third-party vendor and to provide customers a cost-effective program. In order to ensure a prudently operated and cost-effective WeCare program, the Companies plan to use a standard and routine Request for Proposals ("RFP") process to examine and select a WeCare program vendor, just as the Companies have done in the past with the WeCare program, and as they prefer to do in all situations where it is reasonable and cost-effective to do so. If CAC, KACA, or other similar entities are the most reasonable and cost-effective vendors, the RFP process should result in their selection. The Companies recommend the Commission reject the CAC and KACA proposal, thereby allowing the Companies to proceed with their routine RFP process.

In the alternative, if the Commission agrees with the CAC/KACA and requires that the program be contracted to the operators of the federal Department of Energy Weatherization program (i.e., to CAC and KACA), thus determining that the Companies need not use an RFP process to choose a WeCare vendor for the proposed program, the provider of WeCare services should be required to meet the following criteria:

- Program must meet energy efficiency, budgetary, and cost effectiveness goals of this filing;
- Program may be coordinated with, but must be operated and accounted for separately from, other Weatherization Assistance Programs;
- Program may serve LG&E and KU residential customers only;
- Provider must meet all reporting requirements of the Companies;
- Provider must be subject to Company-initiated audits to ensure appropriate utilization of and accounting for funds; and
- Provider must be subject to independent program evaluation initiated by the Companies to ensure energy savings and cost effectiveness objectives are achieved.

Q. Please summarize the Companies' position on their proposed Energy Efficiency Portfolio, as well as the Companies' responses to the AG's, CAC's, and KACA's positions in this proceeding.

A. In summary, the Companies believe that energy efficiency is nothing less than critical for their operations in the short- and long-term, and that significant initiatives in this area are essential.

The AG's position presents a stark contrast to the Companies' application. He recommends eliminating certain programs entirely, including proven demand-reducing programs like Residential and Commercial Load Control, and significantly cutting back important support programs, such as the Customer Education and Public Information and Program Development and Administration programs. But to terminate such programs would eliminate the very components that are necessary to ensure the ongoing support and growth of these important and effective programs. Indeed, the AG's recommendations simply invite a retreat from the advancement of energy efficiency, leaving Kentucky poorly positioned to take advantage of this important resource.

CAC's and KACA's proposal to allow the entities that currently administer the U.S. Department of Energy's weatherization programs to administer the Companies' proposed WeCare program – without first engaging in a competitive bidding process – could result in more costly administration of the program. Though such entities may in fact prove to be the most suitable and low-cost providers for the proposed WeCare program, they should participate in an RFP process on an equal footing with other potential service providers to help ensure that the Companies' customers receive the best return on their energy efficiency dollars.

In sum, the Companies' Energy Efficiency Portfolio proposal is a significant step in scale, but not unconventional in scope. The proposal, though of greater scale than the presently approved set of programs, adheres to conventional ratemaking methods and cost-effectiveness criteria. The proposal promotes energy efficiency in Kentucky and should be approved as filed by the Commission.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **John Wolfram**, being duly sworn, deposes and says that he is Director, Customer Service & Marketing for E.ON U.S. Services, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

JOHN WOLFRAM

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 2nd day of January 2008.

_____________________(SEAL)
Notary Public

My Commission Expires:
10-14-2008

APPENDIX A

John Wolfram

Director, Customer Service & Marketing
E.ON U.S. Services, Inc.
820 West Broadway
P.O. Box 32020
Louisville, Kentucky 40232

Education

University of Notre Dame, B.S. in Electrical Engineering - 1990
Drexel University, M.S. in Electrical Engineering - 1997
Leadership Louisville 2006

Previous Positions

LG&E Energy LLC, Louisville, Kentucky

2004 – 2005	Manager, Regulatory Affairs
2001 – 2004	Manager, Regulatory Policy & Strategy
1998 – 2001	Lead Planning Engineer, Generation Planning
1997 – 1998	Trader, Energy Marketing

PJM Interconnection, Norristown Pennsylvania

1994 – 1997	Senior Engineer, Operations Planning
1990 – 1993	Engineer, Operations Planning

Cincinnati Gas & Electric Company

1993 – 1994	Project Consultant, Energy Management System

Other Associations

Greater Louisville Regional Board for Commonwealth Fund for KET
Edison Electric Institute, Economic Regulation & Competition Committee
Institute of Electrical & Electronics Engineers and IEEE Power Engineering Society