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Executive Director
Kentucky Public Service Commission
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February 29, 2008

RE: ***AN INVESTIGATION OF THE ENERGY AND REGULATORY ISSUES IN SECTION 50 OF KENTUCKY'S 2007 ENERGY ACT***
Administrative Case No. 2007-00477

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten (10) copies of the Joint Testimony of Lonnie E. Bellar which is being offered on behalf of Big Rivers Electric Corporation, Duke Energy Kentucky, Inc., East Kentucky Power Cooperative, Inc., Kentucky Power Company, Kentucky Utilities Company, and Louisville Gas and Electric Company in the above-referenced docket.

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

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

AN INVESTIGATION OF THE	)	
ENERGY AND REGULATORY	)	ADMINISTRATIVE
ISSUES IN SECTION 50 OF	)	CASE NO. 2007-00477
KENTUCKY'S 2007 ENERGY ACT	)	

JOINT TESTIMONY OF
LONNIE E. BELLAR
VICE PRESIDENT, STATE REGULATION AND RATES
E.ON U.S. SERVICES, INC.
ON BEHALF OF BIG RIVERS ELECTRIC CORPORATION,
DUKE ENERGY KENTUCKY, INC.,
EAST KENTUCKY POWER COOPERATIVE, INC.,
KENTUCKY POWER COMPANY,
KENTUCKY UTILITIES COMPANY, AND
LOUISVILLE GAS AND ELECTRIC COMPANY

Filed: February 29, 2008

Q. Please state your name, position and business address.

A. My name is Lonnie E. Bellar. I am Vice President, State Regulation and Rates for E.ON U.S. Services Inc., which provides services to Kentucky Utilities Company ("KU" or "the Company") and Louisville Gas and Electric Company ("LG&E") (collectively "the Companies"). My business address is 220 West Main Street, Louisville, Kentucky. A statement of my professional history and education is attached to this testimony as Appendix A.

Q. On whose behalf is this testimony being offered?

A. This joint testimony is being offered on behalf of Big Rivers Electric Corporation ("BREC"), Duke Energy Kentucky, Inc. ("Duke Energy Kentucky"), East Kentucky Power Cooperative, Inc. ("EKPC"), Kentucky Power Company ("KPCo"), KU, and LG&E (collectively, "Joint Parties").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to state and describe the points of agreement between the Joint Parties concerning the four issues raised by Section 50 of Kentucky's 2007 Energy Act, which the Commission asked the Joint Parties to address:

1) Eliminating impediments to the consideration and adoption by utilities of cost-effective demand-management strategies for addressing future demand prior to Commission consideration of any proposal for increasing generating capacity;

2) Encouraging diversification of utility energy portfolios through the use of renewables and distributed generation;

3) Incorporating full-cost accounting that considers and requires comparison of life-cycle energy, economic, public health, and environmental costs of various strategies for meeting future energy demand; and

4) Modifying rate structures and cost recovery to better align the financial interests of the utility with the goals of achieving energy efficiency and lowest life-cycle energy costs to all classes of ratepayers.

Q. Do the Joint Parties believe that legislation is required to "[e]liminat[e] impediments to the consideration and adoption by utilities of cost-effective demand-management strategies for addressing future demand . . . "?

A. No, the Joint Parties (except Duke Energy Kentucky) agree that no additional legislation is necessary or desirable to achieve this or any of the other ends of Section 50. As shown in the discussion herein, the cost recovery and financial incentive provisions of KRS 278.285 have given rise to a plethora of cost-effective energy efficiency and Demand-Side Management ("DSM") programs being proposed and implemented by the Joint Parties and other utilities. Moreover, the Commission's current planning and certificating processes are adequate to ensure that utilities consider such programs.

Q. What evidence is there to suggest that the current Integrated Resource Planning ("IRP") processes are adequate in this respect?

A. The Joint Parties agree there are several objective reasons to believe that the current IRP processes are adequate to ensure that utilities consider all cost-effective energy efficiency and DSM strategies, even in the absence of statewide, legislative mandates. First, the Joint Parties already have an impressive array of successful and cost-effective energy efficiency and DSM programs.[1] Moreover, some of the Joint Parties, such as KU and

[1] All of the Joint Parties' current energy efficiency and DSM programs are set out in the following data request responses: *In the Matter of: An Investigation of the Energy and Regulatory Issues in Section 50 of Kentucky's 2007 Energy Act*, Admin. Case No. 2007-00477, Kentucky Power Company's Responses to Commission Staff's First Set of Data Requests, DR No. 4 (Nov. 29, 2007); *In the Matter of: An Investigation of the Energy and Regulatory Issues in Section 50 of Kentucky's 2007 Energy Act*, Admin. Case No. 2007-00477, Big Rivers Electric Corporation's Response to the Information Requested by Order Dated November 20, 2007, DR No. 4 (Dec. 7, 2007); *In the Matter of: An Investigation of the Energy and Regulatory Issues in Section 50 of Kentucky's 2007 Energy Act*, Duke Energy Kentucky, Inc.'s Responses to the Commission's Initial Data Requests, DR No. 4 (Dec. 7, 2007); *In the Matter of: An Investigation of the Energy and Regulatory Issues in Section 50 of Kentucky's 2007 Energy Act*, Responses to

LG&E, have recently applied to the Commission to expand even further their energy efficiency portfolio offerings, all without the need for, or prompting of, legislation *requiring* the Joint Parties to evaluate such programs and strategies. Among the numerous energy efficiency and DSM programs offered or proposed by some or all of the Joint Parties are residential and commercial load control programs, heating and cooling tune-ups, residential and commercial energy audits, high efficiency lighting programs, and customer education concerning energy efficiency.

Second, current IRP processes require complete supply-side analyses of all kinds of means for satisfying projected demand. Such analyses already take into account cost-effective energy efficiency and DSM programs.

Third, the Governor's Office of Energy Policy's ("GOEP") comprehensive energy policy statement, "Kentucky's Energy Opportunities for Our Future: A Comprehensive Energy Strategy,"[2] makes no mention of revising any of the utilities' planning processes. The fact that such a comprehensive and authoritative report says nothing about changing established planning processes is strong evidence of the sufficiency thereof.

Moreover, the GOEP's report is part of a consistent trend in Kentucky regulation away from statewide planning mandates. In its order first establishing the IRP regulation, the Commission approved informal, non-adversarial proceedings allowing each utility to file its own IRP, leaving the Commission staff to assemble reports from a statewide

Commission Staff's Data Request to East Kentucky Power Cooperative, Inc. Dated November 20, 2007, DR No. 4 (Dec. 7, 2007); *In the Matter of: An Investigation of the Energy and Regulatory Issues in Section 50 of Kentucky's 2007 Energy Act*, Joint Response of Kentucky Utilities Company and Louisville Gas and Electric Company, DR No. 4 (Nov. 29, 2007).

[2] Available at: http://www.energy.ky.gov/NR/rdonlyres/8E6F3FFE-5DC6-4FC6-9B5A-EA9D2AC89E7A/0/KentuckyEnergyPlan.pdf.

perspective, rather than mandating statewide planning per se.[3] Later, in Administrative Case No. 387, the Commission, faced with prospect of rising electric rates and perceived threats to its ability to regulate effectively due to deregulation in surrounding states, maintained existing IRP processes rather than mandating statewide planning or standards.[4] There is, therefore, consistent and clear evidence from decades of IRP policy of (1) the sufficiency of current IRP processes and (2) an inclination away from statewide mandates and toward more individualized planning and regulation.

Q. Do the Joint Parties object to "consider[ing] and adopti[ng] . . . cost-effective demand-management strategies for addressing future demand <u>prior</u> to Commission consideration of any proposal for increasing generating capacity"?

A. Yes, the Joint Parties object to any mandate that would require consideration of one option before another, whether in the context of Certificate of Public Convenience and Necessity ("CPCN") proceedings or otherwise. The Joint Parties believe that the Commission and utilities should be able to consider simultaneously and on an equal footing *all* solutions for meeting future demand, including the solution of increasing generation capacity. Mandating one solution's priority over another artificially reduces the number of options available to utilities for meeting future demand; at the very least, such a mandate would lengthen and make more expensive the process of considering additional generation capacity. Simply stated, the Joint Parties believe that both the adoption of cost-effective demand-management strategies and the addition of generation

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[3] *In the Matter of: An Inquiry into Kentucky's Present and Future Electric Needs and the Alternatives for Meeting Those Needs*, Admin. Case No. 308, Order at 12 (Aug. 8, 1990).
[4] *In the Matter of: A Review of the Adequacy of Kentucky's Generation Capacity and Transmission System*, Admin. Case No. 387, Order at 85-93 (Dec. 20, 2001).

can, and sometimes must, be performed at the same time and there should be no mandating of one solution over another.

Moreover, IRP processes already provide the appropriate forum for considering energy efficiency and DSM strategies for meeting demand; indeed, given that utilities generally seek CPCNs in accord with their established IRPs, CPCN proceedings are effectively preceded by energy efficiency and DSM considerations.

Q. What is the Joint Parties' position on "[e]ncouraging diversification of utility energy portfolios through the use of renewables and distributed generation"?

A. Each of the Joint Parties stated its objection to mandatory, statewide renewables and distributed generation standards in Administrative Case No. 2007-00300,[5] and the Joint Parties collectively reiterate that position here. That notwithstanding, the Joint Parties would not oppose the establishment of a task force to study the availability and advisability of, and the need for, additional renewable and distributed generation

[5] *In the Matter of Consideration of the Requirements of the Federal Energy Policy Act of 2005 Regarding Fuel Sources and Fossil Fuel Generation Efficiency*, Admin. Case No. 2007-00300, Comments of Kentucky Power Company at 3 (Sept. 28, 2007) ("If adopted, 16 U S C 1621(d)(12) would require Kentucky-jurisdictional utilities to implement plans to reduce their dependence on coal and to ensure that the energy sold is generated 'by a diverse range of fuels and technologies, including renewable technologies.' Adoption of the federal standard is unnecessary and would contravene long-standing policy established by the Kentucky General Assembly."); *In the Matter of Consideration of the Requirements of the Federal Energy Policy Act of 2005 Regarding Fuel Sources and Fossil Fuel Generation Efficiency*, Admin. Case No. 2007-00300, Comments of Big Rivers Electric Corporation at 1 (Sept. 28, 2007) ("The Commission should reject EPAct's fuel source diversity standard."); *In the Matter of Consideration of the Requirements of the Federal Energy Policy Act of 2005 Regarding Fuel Sources and Fossil Fuel Generation Efficiency*, Admin. Case No 2007-00300, Initial Comments of Duke Energy Kentucky, Inc at 6 (Sept. 26, 2007) ("Based on the foregoing, DE-Kentucky respectfully submits that existing statutes and rules grant the Commission adequate authority to regulate the matters addressed by these standards, such that there is no need for the Commission to adopt these duplicative standards."); *In the Matter of Consideration of the Requirements of the Federal Energy Policy Act of 2005 Regarding Fuel Sources and Fossil Fuel Generation Efficiency*, Admin. Case No 2007-00300, Comments of East Kentucky Power Cooperative, Inc at 1 (Sept 28, 2007) ("EKPC believes that the existing regulatory process in Kentucky adequately addresses the issues identified in these two EPAct standards [including the fuel diversity standard] and that the Commission should not adopt them."); *In the Matter of Consideration of the Requirements of the Federal Energy Policy Act of 2005 Regarding Fuel Sources and Fossil Fuel Generation Efficiency*, Admin. Case No 2007-00300, Joint Comments of Kentucky Utilities Company and Louisville Gas and Electric Company at 4 (Sept. 28, 2007) ("The Companies recommend that the Commission not take any action to adopt the federal fuel diversity standard set forth in EPAct 2005, Section 1251(12) . . . [A] generation fuel diversity standard is not necessary and should not be adopted.").

resources in Kentucky. Such a task force could coordinate and cooperate with the efforts proposed in currently pending House Bill 299, which would require the Governor's Office for Energy Policy to issue a report and recommendations concerning standards and requirements for renewable energy resources. The bill further requires: "The Governor's Office for Energy Policy shall actively solicit input and participation from electric utilities and suppliers of retail electric power ... in the scoping and development of the report." The task force could be well positioned to provide to GOEP the utility input and participation envisioned by House Bill 299.

Q. Do the Joint Parties object to "[i]ncorporating full-cost accounting that considers and requires comparison of life-cycle energy, economic, public health, and environmental costs of various strategies for meeting future energy demand"?

A. Yes, the Joint Parties object to the proposed "full-cost accounting" for a number of reasons. First, true "cost accounting" is an accounting term of art, and understood as such it is a form of accounting that all of the Joint Parties already employ; the proposed "full-cost accounting" term therefore needlessly muddies already clear waters. Second, the stated components of the new "full-cost accounting" are largely intangible societal goods that are by their nature incapable of objective derivation or calculation; utilities therefore cannot quantify or include such factors in the utilities' true cost accounting. Third, to the extent that society has quantified the cost of such factors through federal, state, and local governments, the Joint Parties and other utilities already take into account such costs in their true cost accounting associated with any generation, energy efficiency, or DSM proposal. Fourth, the Joint Parties and other jurisdictional utilities already must comply with numerous federal, state, and local environmental requirements and restrictions independent of accounting standards (and the Joint Parties already account for costs of complying with such requirements and restrictions). Fifth and finally, the Commission already is able to address environmental issues with its jurisdictional utilities in several kinds of proceedings, including IRP, environmental cost recovery, and CPCN proceedings.

Q. What is the Joint Parties' position concerning Section 50's proposal to "[m]odify rate structures and cost recovery to better align the financial interests of the utility with the goals of achieving energy efficiency and lowest life-cycle energy costs to all classes of ratepayers"?

A. The Joint Parties (except Duke Energy Kentucky) agree that there is no need to modify rate structures and cost recovery as related to the goals of achieving energy efficiency and lowest life-cycle energy costs. First, as with the concept of "full-cost accounting" discussed above, the Joint Parties reject "lowest life-cycle energy costs" as a factor in any rate structures or cost recovery because it is ambiguous and incapable of clear calculation. Second, also as discussed above, current rate structures and cost recovery have already given rise to, and are serving to encourage the further development of, significant and growing energy efficiency and DSM programs.

Moreover, Kentucky's DSM statute, KRS 278.285, gives the Commission authority to approve reasonable utility-proposed energy efficiency and DSM programs. The Commission may also approve for such programs: (1) full cost-recovery, (2) recovery of lost sales revenues, and (3) "financial rewards" for implementing cost-effective programs. These cost recovery and financial incentive provisions serve to "align the financial interests of . . . utility[ies] with the goal[] of achieving energy efficiency . . .", and the Commission already possesses the authority to approve such programs. No further statutory authority or mandates are needed to achieve the purpose of this part of Section 50.

Q. Please summarize the Joint Parties' positions in this proceeding.

A. In brief, the Joint Parties' positions are:

1) The Joint Parties agree current IRP and CPCN processes are adequate to ensure a wide and ever-growing array of energy efficiency and DSM programs, as evidenced by the Joint Parties' programs. The Joint Parties (except Duke Energy Kentucky) agree that additional legislation is not required to achieve this or any of the ends of Section 50.

2) The Joint Parties have already stated, and reiterate here, that a statewide renewable energy standard is unnecessary, but are not opposed to the establishment of a task force to investigate the availability and advisability of, and need for, additional renewable generation resources.

3) The Joint Parties reject the incorporation of a "full-cost accounting" standard when determining strategies for meeting future energy requirements because the Joint Parties and other utilities already use true cost accounting, and because the proposed "full-cost accounting" factors are ambiguous and incapable of objective quantification.

4) The Joint Parties agree that "lowest life-cycle energy costs" are not appropriate to use in rate structures or cost recovery because they are ambiguous and incapable of objective quantification. Furthermore, there is no need to modify rate structures and cost recovery related to the goal of achieving energy efficiency; KRS 278.285 is

sufficient to align utilities' financial interests with achieving energy efficiency (Duke Energy Kentucky does not join this part of the testimony).

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says he is the Vice President State Regulation and Rates 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.

Lonnie E. Bellar

LONNIE E. BELLAR

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 29th day of February 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:
November 9, 2010

Appendix A

Lonnie E. Bellar
E.ON U.S. Services Inc.
220 West Main Street
Louisville, Kentucky 40202
(502) 627-4830

Education

Bachelors in Electrical Engineering;
University of Kentucky, May 1987
Bachelors in Engineering Arts;
Georgetown College, May 1987
E.ON Academy, Intercultural Effectiveness Program: 2002-2003
E.ON Finance, Harvard Business School: 2003
E.ON Executive Pool: 2003-2007
E.ON Executive Program, Harvard Business School: 2006
E.ON Academy, Personal Awareness and Impact: 2006

Professional Experience

E.ON U.S.

Vice President, State Regulation and Rates	Aug. 2007 – Present
Director, Transmission	Sept. 2006 – Aug. 2007
Director, Financial Planning and Controlling	April 2005 – Sept. 2006
General Manager, Cane Run, Ohio Falls and Combustion Turbines	Feb. 2003 – April 2005
Director, Generation Services	Feb. 2000 – Feb. 2003
Manager, Generation Systems Planning	Sept. 1998 – Feb. 2000
Group Leader, Generation Planning and Sales Support	May 1998 – Sept. 1998

Kentucky Utilities Company

Manager, Generation Planning	Sept. 1995 – May 1998
Supervisor, Generation Planning	Jan. 1993 – Sept. 1995
Technical Engineer I, II and Senior, Generation System Planning	May 1987 – Jan. 1993

Professional Memberships

IEEE