CINERGY®
SERVICES

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Anita M. Schafer
Paralegal

VIA OVERNIGHT MAIL

November 12, 2004

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED
NOV 15 2004
PUBLIC SERVICE COMMISSION

Re: Case No. 2004-00389

Dear Ms. O'Donnell:

Enclosed please find an original and six (6) copies of The Union Light, Heat and Power Company's Responses to the Data Request of the Commission Staff. Also enclosed is the Petition for Confidential Treatment of Information along with the information filed under seal.

Should you have any further questions, please do not hesitate to call me.

Very truly yours,

Anita M. Schafer

Anita M. Schafer
Paralegal

AMS/sew

Enclosures

cc: Iris Skidmore, Esq.
Kentucky Public Service Commission
Environmental and Public Protection Cabinet

Elizabeth Blackford
Assistant Attorney General
Kentucky Attorney General's Office

COMMONWEALTH OF KENTUCKY

RECEIVED

NOV 1 5 2004

PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE ANNUAL COST RECOVERY FILING FOR DEMAND SIDE MANAGEMENT BY THE UNION LIGHT, HEAT AND POWER COMPANY	))))	CASE NO. 2004-00389

PETITION OF
THE UNION LIGHT, HEAT AND POWER COMPANY,
THE CINCINNATI GAS & ELECTRIC COMPANY,
AND ICF RESOURCES, LLC
FOR CONFIDENTIAL TREATMENT OF INFORMATION

The Union Light, Heat and Power Company (ULH&P), The Cincinnati Gas & Electric Company (CG&E) and ICF Resources, LLC (ICF) (collectively, the Requesting Parties), pursuant to 807 KAR 5:001, Section 7, jointly request the Commission to classify and protect as confidential certain information that was provided in response to the Commission Staff's initial interrogatories in this proceeding. In support thereof, the Requesting Parties state:

1. ULH&P filed responses to the initial interrogatories of the Commission Staff on November 15, 2004. These responses contain certain detailed ICF data relating to wholesale power price forecasts under the CAIR plus CAMR MACT proposed rule. Mr. Judah L. Rose, a Managing Director with ICF, states that the ICF proprietary IPM® model was used to analyze these regulations and that the model and the results are confidential and a trade secret. Additionally, ULH&P and CG&E jointly request that certain data relating to CG&E's ownership and operation of generating facilities be treated as confidential and trade secret; specifically, this information consists of: (1) fuel, variable

O&M and A&G costs; (2) fuel contracts; (3) major generating facility maintenance; (4) engineering reports and analyses; (5) emission allowances; (6) generating facilities operating characteristics; and (7) capital expenditure projects and retirements, all associated with CG&E's generating facilities (hereinafter with ICF information collectively "Confidential Material"). As required by 807 KAR 5:001, Section 7(2)(b), ULH&P has provided one unredacted copy of the Confidential Material under seal. Further, ULH&P has accordingly clearly marked such Confidential Material. The initial interrogatory to which ULH&P seeks confidential treatment is Staff data request number 3.

2. The Kentucky Open Records Act exempts from disclosure certain commercial information. KRS 61.878 (1)(c). To qualify for this exemption and, therefore, maintain the confidentiality of the information, a party must establish that disclosure of the commercial information would permit an unfair advantage to competitors of that party.

3. The Confidential Material described above and prepared by ICF contains sensitive, non-public information and is highly proprietary to ICF. Public disclosure of this Confidential Material could harm ICF and provide a distinct advantage to competitors, to the detriment of ICF.

4. ICF has taken reasonable precautions to protect against the public disclosure of the Confidential Material, including, but not limited to, only sharing such information internally on a need to know basis and only releasing such information externally subject to appropriate confidentiality protections.

5. With electric deregulation in Ohio, the information relating to CG&E's ownership and operation of generating facilities consists of non-public information that is proprietary to CG&E. Public disclosure of this Confidential Material could harm CG&E

by providing a competitive advantage to the competitors of CG&E, to CG&E's ultimate detriment. This Confidential Material is not known outside of ULH&P and CG&E, and it is not disseminated within these companies except to those employees with a legitimate business need to know and act upon the information. ULH&P and CG&E have taken reasonable precautions to protect against the public disclosure of the Confidential Material, including, but not limited to, only sharing such information internally on a need to know basis and only releasing such information externally subject to appropriate confidentiality protections.

6. The disclosure of the information contained in the Confidential Material would result in the abandonment of ICF's and CG&E's trade secret protection if the Commission did not adopt appropriate procedures to assure the following:

a. That the Confidential Material be made available solely for inspection by certain designated members of the Commission Staff for purposes of their examination;

b. That the Confidential Material be specifically secured and under the control of a responsible person;

c. That any Commission Staff member receiving access to the Confidential Material be under an obligation to secure and maintain exclusive control of it, to refrain from directly or indirectly allowing public disclosure of any portion of said Confidential Material, and to refrain from and prohibit the copying and reproduction of any of the Confidential Material;

d. That any documents, materials or reports prepared by the Commission Staff not have the effect of disclosing the confidential information contained in the Confidential Material;

e. That no Commission Staff member should have access to the information contained in the Confidential Material without first acknowledging in writing, prior to access, the existence of any Protective Order issued by the Commission in response to this Motion, the need to treat such information in accordance with the provision thereof and the sanctions which may be imposed for unauthorized disclosure of such information.

7. ULH&P agrees to make the Confidential Material available to the Attorney General's office and any other non-competitive intervenor in this case upon the execution of an appropriate confidentiality agreement by such party or parties.

WHEREFORE, The Union Light, Heat and Power Company, The Cincinnati Gas & Electric Company and ICF Resources, LLC respectfully requests that the Commission classify and protect as confidential the specific information described herein.

Respectfully submitted,

John J. Finnigan, Jr.

John J. Finnigan, Jr., Senior Counsel
The Union Light, Heat and Power Company
The Cincinnati Gas & Electric Company
139 East Fourth Street, 2500 Atrium II
Cincinnati, OH 45201-0960
(513) 287-3075 Fax: (513) 287-3810

Judah L. Rose / by JJF ~~per~~ e-mail authorization 11/12/04

Judah L. Rose, Managing Director
ICF Resources, LLC
9300 Lee Highway
Fairfax, Virginia 22031
(703) 934-3342

CERTIFICATE OF SERVICE

This certifies that a copy of the Petition of ULH&P, CG&E and ICF Resources, LLC, for Confidential Treatment of Information was served upon the following parties of record via overnight mail, on this 12th day of November, 2004.

John J. Finnigan, Jr.

Elizabeth E. Blackford
Assistant Attorney General
Office for Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601-8204

Iris Skidmore
Kentucky Division of Energy
Office of Legal Services
Fifth Floor, Capital Plaza Tower
Frankfort, KY 406002

135292

KyPSC Staff First Set Data Requests
ULH&P Case No. 2004-00389
Date Received: November 4, 2004
Response Due Date: November 15, 2004

KyPSC-DR-01-001

REQUEST:

1. Refer to page 4 of the application and the discussion of programs in this filing that are also being reviewed by the Indiana Utility Regulatory Commission ("IURC").
   a. Identify all of the programs included in this ULH&P filing that are being reviewed by the IURC.
   b. When is IURC expected to make a determination of whether to allow costs recovery for implementation of the programs in Indiana?

RESPONSE:

a. All of the new programs included in the ULH&P filing are also being reviewed by the IURC. Of the existing ULH&P programs, only the Residential Comprehensive Education and the Home Energy Assistance Plus (Payment Plus) are not being reviewed by the IURC.
b. December 2004.

WITNESS RESPONSIBLE: Richard G. Stevie

REQUEST:

2. Refer to page 18 of the application regarding the proposal to continue the Payment Plus low-income assistance program as a pilot for another two-year period.
   a. The proposal calls for continuing the same funding and participation levels as the current pilot. Explain whether there was any discussion among members of the Demand-Side Management ("DSM") Collaborative about revising these levels.
   b. Given the results of the evaluation of the Payment Plus program performed by TecMarket Works, what are ULH&P's current expectations as to whether two more years will be sufficient to determine whether the program should be made permanent or, in the alternative, discontinued?

RESPONSE:

a. Yes, this was discussed by the Residential Collaborative at the August 8, 2004 meeting. ULH&P and the Collaborative propose that the Payment Plus low-income assistance programs should be continued as a pilot for two more years at the same level (page 18). This would allow ULH&P to better understand the true value for the investment in energy savings, arrearages, and bill payment habits. The levels proposed were kept the same for several reasons.

   - Allows comparability between years in pilot.
   - Current incentives seen by past participants has been found to be extremely important in decision to participate (78% of the participants).
   - ULH&P believes that the level of 150 participants per year is the right level for the contractors to handle.
   - The Collaborative members also recognized from the impact evaluation study that there were limited benefits identified for participants in terms of arrearage management. The Collaborative members believed it best to continue the program as it has been and investigate whether the load impacts can be obtained without the education component of the program. That research is underway. In the event that the benefits can be obtained without the education and arrearage components, the Payment Plus program would be altered or recommended for termination. However, if it is found that the load impacts achieved are due to

the structure of the total program, it is likely the Collaborative would recommend continuing the program.

b. Given the results of the evaluation, two more years will provide the needed additional time to see the changes in arrearage levels and payment habits over time with the early participants and continued adjustments to delivery of the program to improve effectiveness. This will allow ULH&P and the Collaborative the time to determine the cost effectiveness of the program.

WITNESS RESPONSIBLE: Richard G. Stevie

KyPSC-DR-01-003

REQUEST:

3. Refer to page 22 of the application regarding compliance with SO_2, NO_x, and Hg emissions limits. Provide the results of any analysis performed to determine the cost of compliance with the limits on SO_2, NO_x, and Hg emissions.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

This response contains confidential proprietary trade secret information and will be provided to the parties of record upon the execution of a confidentiality agreement.

WITNESS RESPONSIBLE: Judah L. Rose

REQUEST:

4. Refer to pages 25-27 of the application regarding the proposed Energy Star Products program.
   a. Explain how the specific incentive levels of $2 per bulb and $20 per torchiere lamp were derived. Provide related calculations, workpapers, etc., as needed.
   b. Of the total budget of $243,000, the amount allotted to incentives is $90,000 while the areas of (1) administration by subcontractor and (2) marketing are allotted $153,000. Provide a detailed narrative description of the tasks to be performed by the subcontractor as well as the marketing functions related to the program. Include a breakdown of the costs by category, showing any hourly rates if applicable.

RESPONSE:

a. The incentive levels by technology are set based on market experience of the vendor with input from retailers and manufacturers. These incentive levels have also been tested in several other similar programs throughout the region. These incentives are set to stimulate the customer's interest to purchase. They are not set on a specific calculation of savings or cost effectiveness. The program cost effectiveness calculations are established for the whole program including the incentives and the results of that analysis are in Attachment B of the application. Below are the descriptions of the incentive logic for these two technologies.

   The $2.00 per CFL incentive level is designed to offset the customer's "first cost" barrier. According to GE Lighting the average wholesale cost of a CFL is currently $4.25. While some CFLs are being sold for less than that, the $2 incentive level provides enough to get the "first cost" down to the $2 to $5 level on most bulbs and in some cases drives the "first cost" down to as little as $.99. Offering a higher incentive amount runs the risk of making the product free after incentive, which then sets unrealistic expectations on the cost of the product with consumers. Too low of a cost also begins to devalue the product, giving the perception that it is only worth buying if it is free, which causes redemption rates to drop.

   As the program implementer for the Wisconsin Focus on Energy program and the Midwest Energy Efficiency Change a Light Change the World promotion in 2001, 2002, 2003 and 2004, the vendor, Wisconsin Energy Conservation Corporation (WECC), has considerable experience setting and measuring the effectiveness of incentive levels throughout the Midwest including Kentucky. In 2003, Kentucky residents purchased their full allotment of CFLs during the Change a Light Change the World campaign with the $2 incentive (just over 21,000 CFLs). In the Wisconsin Focus on Energy program over 1,300,000 CFLs were sold with this incentive level via the program during its last fiscal year.

ENERGY STAR torchieres range widely in price. Torchieres can be found for as little as $29.99 or as much as $199. The $20 incentive amount was set to ensure that an ENERGY STAR torchiere can be purchased for as little as a halogen torchiere while at the same time provide a substantial enough discount on more expensive units.

Incentives

Product	***Units***	***Incentive***	***Total***
CFLs	40,000	$2	$80,000
Torchieres	500	$20	$10,000

b. Program Administration

The ENERGY STAR Products program outlined in the filing is a turnkey program designed to provide a market based ENERGY STAR program that works through and with existing market channels to deliver programs and promotions. The theory of this program is there needs to be more market support for the retail chain and less for customer incentives to make long term market changes. However, incentives are still critical to stimulate consumer interest. This approach has proven very successful and is why the administrative and marketing costs are higher than seen in past programs. As the program management contractor for this program for ULH&P, the Wisconsin Energy Conservation Corporation (WECC) will work with retailers, manufacturers, and distributors to deliver a program that achieves both energy savings and market change. The program administration includes the following tasks:

- Task 1: Retailer and Manufacturer Coordination and Implementation
- Task 2: Retailer recruitment and training
- Task 3: Point of Sale Materials
- Task 4: Marketing
- Task 5: Incentive fulfillment
- Task 6: Documentation and Reporting

<u>Task 1: Retailer and Manufacturer Coordination and Implementation</u>

Working with manufactures and retailers is a critical component to the program. As part of the program management function WECC will be responsible for completing the following:

- Finalizing negotiations and contractual agreements with participating retailers and manufacturers

- Working with manufacturers and retailers in advance of any promotion to ensure participation across the regions
- Collaborating with participating manufacturers and retailers to ensure that sufficient amounts of products are available for specific promotions
- Working with participating retailers to implement an allocation strategy (if necessary) to ensure the goals/budget are not exceeded
- Securing cooperative advertising

Task 2: Retailer Recruitment

The program management contractor, WECC, will provide a program representative to recruit and train all program participants. In addition to making regular visits to each retailer to provide program materials (incentives forms, point of sale (POS) information, etc.), they provide them with product knowledge training. The program representative will review the terms of any program promotion with each retailer, provide training, distribute POS materials, and help retailers set up displays prior to the launch of promotions. WECC's past experience shows that this personal attention and delivery is the key to program success.

Task 3: Development of Point of Sale (POS) Materials

The program contractor will work on the development of effective point-of-sale (POS) materials that will be distributed to participating retailers in support of the program. They will ensure that materials feature the appropriate program information and product feature/benefit information. The program contractor will also work to collaborate with ULH&P on the development of the point-of-sale (POS) materials and coupons to ensure these materials are consistent with ULH&P's other DSM goals. Materials may include but are not limited to:

- Shelf shouters customized for each sponsor.
- Banners or header boards
- Instant incentive coupons
- Information and instruction sheet for retailers
- Information and instruction sheet for customers (directional POS)
- Retailer training cards

Examples are included with this response. In addition to coordinating the development, printing, and delivery of the POS materials, ULH&P and its program contractor will ensure materials are consistent with the national ENERGY STAR program messaging.

Task 4: Program Marketing

The program will work to coordinate a strong, unified marketing message throughout the ULH&P territory, one that is consistent with the national program and one that will significantly increase participation and results.

Cooperative advertising negotiations

Program staff will work with advertising groups and manufacturers to set up cooperative advertising for the program. This may include meeting with ad groups, retailers and/or manufacturers to discuss cooperative advertising and negotiate funding for the group/store/brand based on the cost of media in the targeted market. The program will ensure the advertising meets all requirements including the following:

- Advertising must include the ENERGY STAR logo
- Advertising must include the ULH&P name or logo
- Advertising must mention that ULH&P funded the incentive
- Advertising must include information on the benefits of ENERGY STAR qualified products

Press releases and press events

In addition to the advertising and POS materials, the program will develop press releases and other public relation activities in support of the program. The initiatives will be aimed at increasing awareness of the ENERGY STAR program through the news media.

In some cases it may be decided to offer special events such as CFL education sales/press events including press releases, media alerts and other materials as necessary for these events. Press events require more detailed coordination than in store promotions prior to the planning of any of these events the program team will work to develop a press event work plan that will allow the events to be executed seamlessly.

Call Center Support

The program contractor (WECC) will provide and staff a toll free number that can be placed on all promotional materials. This number will lead consumers to our experienced call center staff who can answer questions about the program, provide information on ENERGY STAR as well as provide support and information for participating retailers.

Task 5: Fulfillment

The program contractor will work with its fulfillment subcontractor, Energy Federation Inc (EFI), to process all incentives collected through the program. EFI will provide payment to participating retailers and customers in net/30 from receipt of the incentive forms. This fulfillment subcontractor will be accountable for all data entry, recording participating customer demographic information and purchases. This information will be uploaded to the programs ENERGY STAR tracking database (see description below). The fulfillment subcontractor will also provide a toll free number that retailers and consumers can call to check on the status of their incentive payments.

Task 6: Documentation, Database and Reporting

The program contractor will be responsible for uploading information from the fulfillment subcontractor on a monthly basis to the ENERGY STAR tracking database. Utilizing an existing and proven reporting system the program manager will provide ULH&P with summary and detailed data reports, broken down by customer, retailer, purchase date and product. The program manager will also provide ULH&P with the electronic data file along with an invoice for the incentives processed at the end of each month and at the end of the program year.

The program manager will prepare and submit monthly status reports, outlining promotion set-up and delivery status, incentive fulfillment rates, savings and other pertinent information.

In summary the program administration charges covered in the $60,085 include the following:

- All contractor staff time including the field representative, program management and other program support
- In house marketing support including design work on Point of Sale materials, writing and distribution of press releases, cooperative advertising approval, etc.
- Call center and toll free number
- Data tracking and monthly, quarterly, and annual reporting
- Customer support/service
- Retailer visits, point of sale delivery and training
- Development of program calendar; and set up and coordination/delivery of all promotions
- Negotiating with and securing matching incentive funds from manufacturers as appropriate
- Development of promotional materials
- Travel costs
- Phone/postage/supplies
- Incentive fulfillment

Staffing	**Hours**	**Bill Rate**	**Total**	
Program Representative	350	45	$	15,750
Program Manager	175	85	$	14,875
Lighting Manager	80	65	$	5,200
Administration	24	80	$	1,920
Marketing	85	60	$	5,100
Admin Support	72	45	$	3,240
Labor total			***$***	***46,085***
Travel Expenses			**$**	**3,200**
Incentive Fulfillment			**$**	**10,800**

Marketing

There are three key components to the marketing for an ENERGY STAR products program. They are; in store Point of Sale materials, Co-operative Advertising and Major Media – Newspaper/Radio/etc.

The in-store Point of Sale is designed to help drive the sales in store and provide consumer education at the point of purchase. These pieces use bright colors and other visuals to draw the customer's eye to the product and provide them with the key features and benefits of the product thus spurring the sale. Point of Sale pieces can include end cap posters, shelf shouters, banners, shelf danglers, coupons for instant promotions, directional signs, etc.

$18,000

Cooperative advertising dollars are used to encourage the participating retailers to provide their own advertising in support of the program. Research suggests that many consumers make the decision to buy products based on store advertising. Retailers know best how to reach their customers. Cooperative advertising allows the program to leverage their expertise to promote the programs to their customers. Typically the cooperative advertising program offers a retailer up to $500 to cover as much as 75% of the cost of an ad promoting ENERGY STAR. Based on our program experience cooperative advertising is a critical component to a successful program.

$5,000

Major media, including newspaper and radio is usually done at the start of a promotion in conjunction with cooperative advertising. It announces the program or promotion, lets consumers know where to go top participate, why they should purchase ENERGY STAR products and who is sponsoring the program.

$25,000

All three pieces are key components to a successful consumer awareness campaign.

Utility Support & Direct Marketing

To promote to customers, ULH&P must also do direct advertising through media, bill stuffers, ULH&P web site and office brochures. These marketing costs support the overall effort in the stores and special promotions. Specific allocations by category will be made after the final overall marketing plan is developed upon Commission approval of the program.

$45,000

Total Program Costs (Including Incentives) **$243,000**

WITNESS RESPONSIBLE: **Richard G. Stevie**

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$45,000

Total Program Costs (Including Incentives) $243,000

WITNESS RESPONSIBLE: Richard G. Stevie

KyPSC-DR-01-005

REQUEST:

5. Refer to pages 27-29 of the application regarding the proposed Energy Efficient Website program.
   a. The last paragraph on page 28 refers to the challenge of getting customers to visit the Web site "which ULH&P recommended to occur primarily through direct marketing to the end user and promotion through the Call Center Customer Service Representative." The following sentence, which reads "Unfortunately the Residential Collaborative did approve of the funds for the direct marketing of the website," appears to be inconsistent with the last sentence of the paragraph, which reads, "This may change in the future." Explain whether the sentence beginning with "unfortunately" is misstated and whether the Residential Collaborative did or did not approve funding for the direct marketing of the Web site.
   b. Provide examples of direct marketing materials and cost estimates associated with the marketing of this Web site to customers.

RESPONSE:

a. The sentence should have been: "Unfortunately, the Residential Collaborative did not approve of the funds for the direct marketing of the web site." The sentence in the application is incorrect.
b. The Residential Collaborative did not approve of the funds for marketing of the Web site. As a result there are no materials.

WITNESS RESPONSIBLE: a. Richard G. Stevie
b. Michael Goldenberg

REQUEST:

6. Refer to the Energy Star Products and the Energy Efficient Website programs.
   a. Provide copies of all existing marketing and informational materials associated with these programs that will be provided to customers.
   b. Explain how these materials comply with the requirements of 807 KAR 5:016, the administrative regulation which distinguishes between promotional and informational material and which establishes what advertising is recoverable.

RESPONSE:

(a) There are no marketing and informational materials prepared yet. Enclosed in attachment KyPSC-DR-01-006(a) are examples of the types of marketing and informational materials used by WECC in similar programs conducted in other areas.

For the Lighting Point-of-Purchase
The enclosed point-of-purchase material is designed to draw the consumer's eye to ENERGY STAR qualified products displayed on the sales floor. All of the materials prominently feature the ENERGY STAR.

Lighting point-of-purchase is challenging due to the variety of store layouts, the size and amount of room in the aisles, and the different types of shelving. To give retailers maximum flexibility and to overcome the layout differences, WECC has developed a variety of materials. The most popular of these materials is the accordion style Cash-Back Reward stickers that adhere directly to bulb and torchiere packages. The purchaser can remove the sticker and it folds out into a Cash-Back Reward coupon for them to mail in (Exhibit 1). Other lighting point-of-purchase material includes:

- Lighting brochure (Exhibit 2)
- Shelf Shouter (Exhibit 3)
- Under shelf shouter (Exhibit 4)
- Directional sign for use at Change a Light Instant Events (Exhibit 5)
- End cap signs – True Value Hardware & Ace Hardware versions (Exhibits 6 & 7)

The lighting brochure not only displays the ENERGY STAR logo, but also educates consumers about the benefits of ENERGY STAR. It is full of information on qualified lighting products along with a comparison chart showing the lifetime savings of CFLs.

(b) Under 807 KAR 5:016, a public utility company cannot recover through rates the cost of promotional advertising, but can recover the costs of informational advertising. "Promotional advertising" is defined under 807 KAR 5:016 Section 4(1)(b) as "any advertising for the purpose of encouraging any person to select or use the service or additional service of any energy utility, or the selection or installation of any appliance or equipment designed to use such utility's service." Under 807 KAR 5:016 Section 4(1)(d) there is a specific exception to this general rule, and the exception provides as follows: "The terms 'political advertising,' 'promotional advertising,' and 'institutional advertising' do not include: 1. Advertising which informs utility customers how they can conserve energy; * * * 5. Advertising which promotes the use of energy efficient appliances, equipment or services." In the present case, the advertising materials in question fall within this specific exception provided for in the Commission's regulation, which allows a public utility to recover the cost of advertising materials, because the purpose of the Energy Star Products and the Energy Efficient Website advertising materials is to promote the use of energy efficient appliances, equipment or services.

WITNESS RESPONSIBLE: Michael Goldenberg

KyPSC-DR-01-007

REQUEST:

7. Refer to pages 29-32 of the application regarding the proposed new commercial and industrial programs.
   a. The sentence under "New Commercial and Industrial Programs" on page 29 refers to "two new business programs." However, the discussion that follows refers only to Program 9 -- High Energy Incentive. Are there two new business programs or was the initial sentence misstated? Explain the response as needed.
   b. The $235,943 budget on page 32 includes $167,365 for incentives and $58,578 for marketing. Approximately half of the budget for incentives is for lighting, HVAC, and motors, while the other half is identified as "Other."
      i. Provide a breakdown of the $83,484 in incentives identified as "Other." Related measures with incentives of less than $1,000 may be aggregated.
      ii. Provide a detailed narrative description of the marketing functions related to the program. Include a breakdown of the costs by category, showing any hourly rates if applicable.

RESPONSE:

a. The sentence should refer to just one program. In the initial draft, there were two programs. The second program was for a photovoltaic program for schools. The DSM Collaborative did not want to support this program, so it was dropped from the application, but changes to this sentence were overlooked.
b. i. The breakdown of the $83,484 of incentives is provided on Attachment C page 3b of 7 under the section labeled Projected Measure Costs for 2005.
   ii. The amount allocated of $58,578 is for both Administration and Marketing, not just marketing. This budget amount covers all program labor for management and support. The marketing portion of the budget is for materials and direct mailings. There is no advertising or media planned for this program. The budget breakdown is as follows:
   - Marketing – brochure development, printing, and mailings = $13,685
   - Administrative Support – management, field support, technical support, and reporting = $27,375
   - Evaluation and inspections = $17,518

WITNESS RESPONSIBLE: Richard G. Stevie

KyPSC-DR-01-008

REQUEST:

8. Refer to pages 32-38 of the application regarding the proposed to recover lost revenues and shared savings.
   a. Refer to the discussion on page 35 regarding the requested period of time that lost revenues would be included for recovery via the DSM rider. Explain why the period is for the five-year life of the program if there is a retail rate cast but only three years in the absence of a rate case.
   b. Refer to the discussion on page 36 regarding the proposed shared savings incentive. Explain how 10 percent was chosen as the savings incentive.

RESPONSE:

a. ULH&P is requesting recovery of electric lost revenues for the five year term of this application. However, ULH&P is limiting the recovery of lost revenues from the installation of a DSM measure to three years from the installation of the measure. For example, under ULH&P's proposal in this application, lost revenue recovery for measures installed in the first month of the first year of the program period would continue until the first month of the fourth year of the program period and then end. For measures installed in the first month of the third year of the program period, lost revenue recovery would continue until the twelfth month of the fifth year of the program period. The only circumstance that would alter the lost revenue recovery would be a rate case. In the event of an electric rate case, the lost revenue recovery of previously installed DSM measures would cease. Lost revenues would only be collected on measures installed after the term of the test period in the rate case.

b. In the 1995 DSM application approved by the Kentucky Commission, a 15% savings was approved. The percentage was reduced to make it consistent with the request before the IURC. This level preserves most of the savings from the program for the ULH&P's customers.

WITNESS RESPONSIBLE: Richard G. Stevie

KyPSC-DR-01-009

REQUEST:

9. Refer to Attachment D of the application regarding the DSM rider levels.
   a. Explain why the (over -) under-collection amounts for residential gas programs, residential electric programs, and commercial programs shown on page 1 of 5 do not match the respective amounts in the true-up column on page 5 of 5.
   b. For the residential programs, explain why under-collections are of the magnitudes (gas - $1,705,294; electric - $575,613) shown on page 1 of 5.
   c. Given the magnitude of the residential gas under-collections and the resulting rider of almost 33 cents per Mcf, did the Residential Collaborative consider proposing a deviation from the standard true-up methodology in order to extend the length of time over which the recovery would occur? Explain the response.
   d. Would ULH&P or the Residential Collaborative object to a deviation that extended the time from one to two years? If yes, explain why.

RESPONSE:

a. As in past practice, the amounts of over or under recovery are adjusted for the average three-month commercial paper rate. See footnote (A) on Page 5 of 5 on Attachment D.
b. There are two reasons for the accumulation of these amounts of under recovery for residential gas and electric costs.
   - First, the structure of the reconciliation process causes the amounts to continue to grow from the end of the reporting period until the new rider goes into effect. This makes it difficult to ever exactly match expenses with recovery. The reporting period ends in June of each year. However, new riders do not go into effect until January of the next year. If a rider was not high enough to recover the costs, the under-recovery continues for an additional six months before the process starts to turn around. In the meantime, the level of under-recovery has climbed. The same situation exists for over-recovery. It is the nature of the reconciliation methodology. Currently (July to December 2004), the residential riders are over-recovering relative to the level of expenditures which will shrink the level of under-recovery for the next reconciliation period.

- Second, the Kentucky Commission's Order, in the 2003 DSM Application in Case No. 2003-00367 on November 20, 2003, approved an increase in the recovery of the costs associated with the residential electric and gas DSM programs. ULH&P applied the new rates approved by the Commission in the first billing cycle in January 2004. Unfortunately, the new rider levels did not actually get applied to customer bills until April, 2004. In the interim, the under-recovery amounts continued to climb.

c. No, this was not discussed by the Residential DSM Collaborative.

d. ULH&P does not object to a two-year time period for the gas rider. In that circumstance, ULH&P recommends that the gas rider be set to allow for recovery of the two-year program costs of $1,212,900 (2 x $606,450) plus a two year amortization of the under-recovery at $1,735,648 at $867,824 per year. Assuming the same level of volumes for both years, the new rider would equal (($606,450 + $867,824)/ 7,099,110 MCF) or $.20767 per MCF or 2.0767 cents per ccf.

WITNESS RESPONSIBLE: Richard G. Stevie