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Elizabeth O'Donnell
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Kentucky Public Service Commission
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AUG 31 2007
PUBLIC SERVICE
COMMISSION

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August 31, 2007

**RE: *JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC
COMPANY, ASSOCIATION OF COMMUNITY MINISTRIES, INC.,
PEOPLE ORGANIZED AND WORKING FOR ENERGY REFORM,
AND KENTUCKY ASSOCIATION FOR COMMUNITY ACTION,
INC. FOR THE ESTABLISHMENT OF A HOME ENERGY
ASSISTANCE PROGRAM – CASE NO. 2007-00337***

Dear Ms. O'Donnell:

Enclosed please find an original and six (6) copies of the Response of Louisville Gas and Electric Company to the Request for Information Posed by the Attorney General dated August 24, 2007, in the above-referenced proceeding.

Please contact me if you have any questions concerning this filing.

Sincerely,

Rick E. Lovekamp

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY, ASSOCIATION OF)	
COMMUNITY MINISTRIES, INC., PEOPLE)	CASE NO.
ORGANIZED AND WORKING FOR ENERGY)	2007-00337
REFORM, AND KENTUCKY ASSOCIATION FOR)	
COMMUNITY ACTION, INC. FOR THE)	
ESTABLISHMENT OF A HOME ENERGY)	
ASSISTANCE PROGRAM)	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
REQUEST FOR INFORMATION
POSED BY THE
ATTORNEY GENERAL
DATED AUGUST 24, 2007

FILED: August 31, 2007

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Request for Information
Posed by the Attorney General
Dated August 24, 2007**

Case No. 2007-00337

Question No. 1

Witness: Timothy Melton

Q-1. Please reference the Application, at page 3, paragraph 7. Please provide an estimate of the costs to unify the two Companies' HEA programs. Does the company have any estimate of savings which would result from the unification of the programs (e.g. reductions in administrative costs, etc.)? Does the company have any plans to combine the two programs at a later time?

A-1. Although the Companies do not have an estimate of the cost of unifying the LG&E and KU HEA programs, it is reasonable to assume that the cost for such a project would be significant. For example, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. ("CAC") estimated that to replicate the LG&E program within their IRIS software would cost approximately \$90,000. That estimate does not include any training for the many community action agencies that help administer the program across the KU territory. This cost results from the fact that the Companies' separate HEA programs were designed to work within the distinct constraints of each company's billing and customer information systems. Also, unique client demographics within each service territory coupled with the different intake processes of the community agencies that administer the programs currently prohibit unification of the two systems. For example, LG&E serves a primarily urban population concentrated in one city, with most customers being combined gas and electric customers. By contrast, KU customers are spread throughout a majority of the counties in the state, and KU provides only electric service.

The Companies recently filed independent evaluations of their current three-year HEA pilot programs, which show that the programs have been successful in assisting their respective communities effectively and efficiently. Given the success of the programs as currently constituted, which the Companies propose in these Applications to continue largely without change, it is unlikely that incurring the significant expense of merging the two programs would result in any meaningful benefits.

The Companies will continue to assess their HEA programs and work with the responsible community agencies to determine if or when it would be appropriate and cost-effective to combine the programs.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Request for Information
Posed by the Attorney General
Dated August 24, 2007**

Case No. 2007-00337

Question No. 2

Witness: Timothy Melton

Q-2. Please reference the Application, at page 8, paragraph 19. Please provide an example of the calculation of client benefits using the "Modified Fixed Credit." With this example, please provide an explanation detailing the factors examined and their values and ranges. Please also indicate whether a client's preceding 12 month usage is normalized based on similar households prior to any calculation of benefit and if it is not, please explain why.

A-2. The requested example calculation is attached (Exhibit 1). Listed below are the factors examined, and their values and ranges:

Inputs –

- Monthly Income - Provided by CAA – Must be at least \$100 per month and cannot exceed 110% (proposed program states a client cannot exceed the then-effective LIHEAP Federal Poverty guidelines adopted by the Commonwealth of Kentucky, which is currently 130%) of the Federal Poverty Level.
- Household Size - Provided by CAA – Can range from 1 person to 12 people.
- Electric Weather Normalization Factor – Provided by LG&E – Based on Weather Bureau 30-year normal Degree Days compared to actual Degree Days for the last 12 months.
- Gas Weather Normalization Factor – Provided by LG&E – Based on Weather Bureau 30-year normal Degree Days compared to actual Degree Days for the last 12 months.
- Electric Cost Correction Factor – Provided By LG&E – Based on a comparison of average electric rates for the last 12 months compared to current rates.

- Gas Cost Correction Factor – Provided By LG&E – Based on a comparison of average gas rates for the last 12 months compared to current rates.
- Client Actual Electric Cost for last 12 months – Provided by LG&E – these are actual figures based on billings for usage.
- Client Actual Gas Cost for last 12 months -- Provided by LG&E – these are actual figures based on billings for usage.
- Percentage of Energy Burden Affordable – These are percentages of a client's income based on household size. These percentages vary from 12% for a 1 person household to 5% for a 12 person household. These percentages were suggested by David Cross, a program evaluator, and adopted by the AEC Board of Directors.

Normalization of an individual client's past 12 months of usage, for both weather and price, is based on (1) actual weather versus a 30-year normal, and (2) actual rates for the last 12 months (including fuel adjustments) versus current rates.

Usage data for similar households plays no role in the calculation of a clients subsidy need. Using usage figures from similar households would only skew results, since calculations show that roughly 30% of households receiving a LIHEAP Subsidy do not need additional help with utility bills beyond the LIHEAP Subsidy payment.

MODIFIED FIXED CREDIT

SAMPLE CALCULATION

INPUT DATA

COMMUNITY ACTION AGENCIES

Monthly Income = \$721.00
 Household Size = 2

LG&E

Weather Normalization Factor - 12 months - Electric = 1.0238
 Weather Normalization Factor - 12 months - Gas = 0.9935
 Electric Cost Correction Factor - 12 months = 0.9737
 Gas Cost Correction Factor - 12 months = 1.0845

Sample Clients Actual Bill for Last 12 months (in Dollars)

	Electric	Gas
Month 1	\$51.20	\$58.10
Month 2	\$41.00	\$166.30
Month 3	\$51.78	\$233.93
Month 4	\$79.09	\$82.93
Month 5	\$101.97	\$69.73
Month 6	\$117.08	\$24.52
Month 7	\$104.45	\$20.60
Month 8	\$88.91	\$24.33
Month 9	\$33.75	\$23.76
Month 10	\$24.14	\$56.62
Month 11	\$28.39	\$71.12
Month 12	\$30.47	\$106.25

SAMPLE CALCULATION

STEP 1 - Add Monthly Usage to Determine Annual Usage

Annual Actual Usage Electric = \$752.23
 Annual Actual Usage Gas = \$938.19

STEP 2 - Weather and Price Correct Usage

Annual Actual Usage Electric =	\$752.23
x Weather Normalization Factor - 12 months - Electric =	1.0238
x Electric Cost Correction Factor - 12 months =	0.9737
<hr/>	
Annual Weather and Price Usage Electric =	<u>\$749.88</u>
Annual Actual Usage Gas =	\$938.19
x Weather Normalization Factor - 12 months - Gas =	0.9935
x Gas Cost Correction Factor - 12 months =	1.0845
<hr/>	
Annual Weather and Price Usage Gas =	<u>\$1,010.85</u>

STEP 3 - Total Weather and Price Corrected Usage

Annual Weather and Price Usage Electric =	\$749.88
Annual Weather and Price Usage Gas =	\$1,010.85
Total Weather and Price Corrected Usage =	\$1,760.73

STEP 4 - Sample Client Annual Income

Sample Client Monthly Income =	\$721.00
x 12 Months	12
Sample Client Annual Income =	\$8,652.00

STEP 5 - Client's Affordable Energy Burden

Sample Client Annual Income =	\$8,652.00
Household Size of 2 - Percent Affordable =	10.00%
Client's Affordable Energy Burden =	\$865.20

Step 6 - Calculation of Client Subsidy Needed

Total Weather and Price Corrected Usage =	\$1,760.73
Client's Affordable Energy Burden =	\$865.20
Client Subsidy Needed =	\$895.53

Step 7 - Determination of Benefit Level

Client Subsidy Needed =	\$895.53
Level 3 - Annual Subsidy	\$700
Level 4 - Annual Subsidy	\$1,000

Client Need to between Level 3 and 4 - Receive Level 3

Client Annual Benefit = \$700

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Request for Information
Posed by the Attorney General
Dated August 24, 2007**

Case No. 2007-00337

Question No. 3

Witness: Timothy Melton

Q-3. Please reference the Application, at page 8, paragraph 20. For each of the benefit levels (\$200, \$400, \$700, and \$1,000) please provide the following:

- A. Average client household income level,
- B. Average client household size (number of persons),
- C. Average client household electrical usage per month, and
- D. Average square footage of client dwelling (if known).

A-3. The following data represents year-to-date 2006 and was provided by Affordable Energy Corporation.

A. Average client household income level

Subsidy	\$200	\$400	\$700	\$1,000
Average Annual Income	\$8,676	\$8,319	\$7,993	\$7,275

B. Average Client household size (number of persons)

Subsidy	\$200	\$400	\$700	\$1,000
Average Household Size	1.96	2.3	2.4	3.2

C. Average client household electrical usage per month, and

Subsidy	\$200	\$400	\$700	\$1,000
Average Monthly Electric Usage (kWh)	752.4	983.5	1190	1481.3
Average Monthly Gas Usage (CCF)	39.75	50.5	58.25	78.917

D. Unknown.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Request for Information
Posed by the Attorney General
Dated August 24, 2007**

Case No. 2007-00337

Question No. 4

Witness: Timothy Melton

- Q-4. Please reference the Application, at page 12, paragraph 29. Please indicate what types of weatherization services are offered to eligible clients by the company or otherwise. Do any of these programs require the participant to pay a fee for the weatherization services? If not, why?
- A-4. Currently LG&E works in partnership with other agencies to provide the following weatherization programs: WeCare Program, Project WARM, and the Louisville Metro Department of Housing and Urban Development Weatherization Program

WeCare is an education and weatherization program designed to reduce the energy consumption of low-income customers and is part of LG&E's Demand-Side Management program. Services may include wall and/or attic insulation, HVAC/furnace inspections/tune-ups, water heater insulators, compact fluorescent lighting, window air conditioning unit replacement (if applicable), programmable thermostats, air sealing, health and safety measures (e.g., gas leaks), energy education, energy audits, and more. The program is free for low-income individuals who have also received LIHEAP. Additionally, customers who feel they qualify for the program may request to go through an intake process to be qualified. The Companies have proposed to renew the WeCare Program for 2008-2014 in the proceeding currently before the Commission in Case No. 2007-00319.

Project Warm is a nonprofit agency that provides energy conservation education and weatherization services that are free for low-income individuals. Services may include door/window weather stripping, plastic covering for windows, replacement of broken windows, and various other air-sealing that may be needed in a home. LG&E provides a grant to Project WARM and company-wide volunteer support for the annual Weatherization Blitz, and sponsors the annual House Warming fundraiser in December.

The Louisville Metro Department of Housing and Urban Development Weatherization Program provides various services including emergency replacement of furnaces and water heaters, pipe insulation, water heater insulation, carbon monoxide detectors, and smoke alarms. They also manage an extensive home repair program, which can completely remodel a home, including kitchens, baths, roofs, siding, windows, doors, electric, and plumbing. All services are free to low-income individuals and families. Funding comes from the U.S. Department of Energy and Louisville Metro Government.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Request for Information
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Dated August 24, 2007**

Case No. 2007-00337

Question No. 5

Witness: Timothy Melton

Q-5. Please explain the differences between the program proposed herein by Louisville Gas and Electric Company and that proposed by its sister company, Kentucky Utilities Company. For any differences noted, please provide an explanation of why such differences exist between the two programs and whether such differences are to be eliminated in any renewal of these programs in the future.

A-5. The programs proposed by LG&E and KU differ in a few ways because (1) different agencies designed the programs, (2) LG&E's program is older than KU's, (3) LG&E and KU have different CIS systems, (4) the administering community agencies have different systems, and (5) LG&E and KU have different customer demographics. The Companies will continue to assess their HEA programs and work with the responsible community agencies to determine if or when it would be appropriate and cost-effective to eliminate any differences. Listed below are the major differences between the programs and the reasons for those differences:

- 1) **Energy Conservation Education**
The LG&E HEA program is able to provide an energy conservation workshop to each participant at the time of intake training each year. This would be difficult for participants in the KU HEA program as they have intake year-round and do not have the opportunity to gather the participants together at one time for such a training. Also, because of the broad KU service territory, it creates additional hardships financially and logistically to facilitate client training.
- 2) **Benefits:**
The LG&E HEA program is based on a concept known as the "Modified Fixed Credit." This model encourages energy conservation and responsibility of participants by calculating a monthly subsidy payment based on a client's income and annual usage. The KU HEA program provides that same total subsidy to each client that qualifies for the program.
- 3) **Intake Timing**
The KU HEA program is designed around an intake system that takes clients year-round. By contrast, the LG&E HEA program relies on the LIHEAP Subsidy

Program for intake data, which is run once a year in November. To move the LG&E HEA program to year-round intake would dramatically increase intake costs, and would then rely on stale intake data. Year-round intake would require a stand-alone intake system, which would be very expensive and eliminate some efficiencies of the program. Year-round intake would also require many additional intake training and energy education sessions, which would drive up the administrative cost of the LG&E HEA program.

On the other hand, the KU HEA program is designed around an integrated year-round database program. Doing all intake at one time annually would require additional temporary staff and drive up administrative costs. The differences in the intake timing of the two programs are necessary to keep administrative costs as low as possible.

- 4) **Electric-only compared to Combined Utility**
Most participants in the LG&E program have combined gas and electric services. The KU program participants heat and cool with electricity only.