COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF THE LOUISVILLE GAS AND ELECTRIC COMPANY TO ESTABLISH PREPAID GAS AND ELECTRIC SERVICE	)))	CASE NO. 2000-548

O R D E R

On December 5, 2000, the Louisville Gas and Electric Company (LG&E) filed a proposed tariff to establish a pilot prepaid meter program for residential customers. The tariff had an effective date of January 4, 2001 and was to be in effect for only 1 year. Since the tariff was being offered as an option, on a purely voluntary basis, it was not suspended. This case was initiated on December 22, 2000 to investigate the reasonableness of the proposed tariff.

Intervening in this proceeding are the Kentucky Association for Community Action (KACA), the Community Action Council for Lexington-Fayette, Bourbon, Nicholas and Harrison Counties, Inc. (CAC), and Metro Human Needs Alliance and People Organized and Working for Energy Reform (MHNA/POWER) (collectively Intervenors). Informal conferences attended by representatives of LG&E, the Intervenors, and Commission Staff were held January 9, 2001 and March 5, 2001. LG&E and the Intervenors filed testimony and were subject to discovery. A formal hearing was held on August 14 and 15, 2001, post-hearing briefs were filed on September 21, 2001, and the case now stands submitted for decision.

BACKGROUND

A customer who chooses to participate in LG&E s prepaid meter pilot receives a prepay meter, an in-house display unit, which plugs into a standard electrical outlet, and two smart cards (which resemble credit cards) with which to pay for his or her energy use. There is one pay station for customers to pay and transfer payment amounts to their smart cards. The pay station is located at LG&E s service center at 8th and Broadway in downtown Louisville, Kentucky. The pilot program is limited to 500 participants, who must reside within a five-mile radius of the service center. A customer places an amount of money (the minimum is $1.00) into the ATM-type machine at the pay station, which downloads that amount onto the customer s smart card. The customer then transfers that amount from the smart card to the in-house display unit, which then displays the amount of energy that has been prepaid. As the customer consumes energy, the in-house display will continuously show the amount remaining and will alert the customer when the amount of energy remaining has declined to 4 days estimated usage.

For 7 months of the year, if the amount of energy purchased runs to zero the customer s electric service will automatically shut off. However, from November through March, the primary heating season months, the prepay meters are programmed to operate in credit mode, meaning service will not shut off when the energy purchased runs to zero. During that period, prepay meter customers will be treated no differently than traditional credit customers with respect to LG&E s disconnection policies.

LG&E offers the pilot program to its customers on an optional basis. To participate in the program, a customer must receive both gas and electric service from

LG&E and must agree to enroll in a budget payment plan for gas service. A smart card can be used to purchase a dollar value of energy with the gas budget amount spread over the first 600 hours in a month, as is the fixed portion of the customer s electric bill. The fixed portion of the electric bill includes LG&E s standard residential electric service customer charge of $3.29, plus a facilities charge of $7.50 to cover the cost of the prepaid meter. The variable portion of the charges for electric service is based on the average of LG&E s existing seasonal residential electric rates. Generally, this means that prepay meter customers are charged the same overall rate as other residential customers plus the $7.50 facilities charge. If a customer has a pre-program arrearage, thirty cents of every dollar charged is credited against the customer s arrearage balance.

ISSUES

LG&E s Position on Program

LG&E states that the pilot is entirely voluntary, limited in scope and geographic area, and designed for the purpose of evaluating the feasibility of providing prepaid electric and gas service as a standard tariff offering. The pilot will be used to gather information that will assist LG&E in evaluating whether prepaid service should be offered to an expanded number of customers. Although the pilot tariff became effective on January 4, 2001, no customers were enrolled in the pilot until March 2001.

LG&E asks that the program be allowed to remain in effect in its existing form for the duration of the pilot; it would not, however, oppose an extension of the pilot through April 2002 to allow its customers to test the program through the winter heating season. In addition, LG&E asks that customers that are on the program at the end of April 2002 be permitted to remain on the program until the Commission issues an Order terminating the program, unless a customer exits the program voluntarily.

One issue raised by the use of prepaid meter service is whether the utility is required to comply with the Commission s regulations on service terminations for non-payment of bills, 807 KAR 5:006, Section 14(1)(f)1. That regulation prohibits a gas or electric utility from terminating service without first sending the customer an advance termination notice. LG&E argues that it is the customer, not the utility, who terminates service when the prepaid energy amount runs down to zero. LG&E contends that the loss of service is due to the customer s not having replenished the prepaid energy on the smart card and prepay meter. LG&E, therefore, requests the Commission to find that a deviation from the regulation on service terminations is not required for prepaid meter service or, in the alternative, that such deviation should be granted for good cause shown.

Intervenors Positions on Program

MHNA/POWER contend that the prepaid meter program should not be offered to low-income customers. They argue that these customers typically encounter bill payment problems with a greater frequency than the general customer population and, consequently, will be subject to more frequent loss of utility service under the program. They ask that no additional customers be added to the program until an independent evaluation has been performed and submitted for public comment and further review by the Commission.

CAC and KACA claim that low-income customers participating in the prepaid meter program will not be eligible for crisis assistance funds from the federally-funded

Low Income Home Energy Assistance Program (LIHEAP) because prepaid meter customers will not receive a disconnect notice from the utility when they are in danger of losing service. In addition, they claim that prepaid meter service is a lesser level of service than traditional credit service and that, because LG&E stands to profit by reducing bad debt write-offs, meter reading costs, and field credit activity, prepaid meter service should be offered at a discount rather than at the residential rate plus $7.50 per month. CAC and KACA claim that prepay customers will face a greater risk of doing without heat during the winter months because of the potential for more frequent loss of service than traditional credit customers.

If the pilot program is continued, the CAC and KACA argue that certain conditions should be imposed, including prohibiting service disconnections between November 1 and March 31; excluding from eligibility all customers with incomes below 200 percent of the federal level; and excluding payment for gas service from the program. In addition, CAC and KACA maintain that during the pilot LG&E should be required to report certain information regarding customer disconnections to the Commission for its review and analysis and that LG&E should be required to pay for an independent third-party evaluation of the program.

LG&E s Response to Intervenors Positions

LG&E argues that low-income customers should not summarily be excluded from the program, solely based on their income levels. It maintains that it will do everything within its power to ensure that LIHEAP assistance will be available to eligible customers that enroll in the prepay meter program. LG&E states that, because of its decision to program the meters to go into credit mode from November through March, prepay customers will be at no greater risk of losing heat due to loss of service during the winter months than a traditional credit customer.

LG&E cites greater control of energy usage, increased payment flexibility, and extended deferred payment arrangements as three areas in which prepay service represents a greater level of service to customers than traditional credit service. LG&E also contends that the program will not result in sufficient savings due to reductions in bad debts or credit and collection activity to justify a reduction in the rates charged prepay customers until there is a level of customer participation that would justify eliminating a full-time LG&E customer service position.

DISCUSSION

Continuation of Pilot

The Commission recognizes the Intervenors concerns regarding LG&E s prepaid meter pilot program. We share many of those concerns and believe that they must be addressed prior to considering any expansion or major modifications to the existing pilot. However, the Commission finds that additional information on the actual operating results of the prepaid meter program is necessary to make an informed and reasoned decision on the program s merits. In order to gather such information, we find that continuing the pilot program in its current form through the remainder of the current heating season is appropriate.[1] This finding is based on LG&E s representation that the prepaid meters will run in credit mode through March 31, 2002, meaning that prepaid meter customers will not lose service through that date if the amount of energy for which

[1] Since the program was not actually up and running until April 2001, it was not in effect during the past heating season and will not have generated a full year s data until at least March 2002.

they have prepaid runs down to zero. We further find that the program should continue in its current form until such time as the Commission renders a decision on the merits of the pilot program after further review and investigation as discussed below.

In order to allow the Commission to conduct a meaningful review of the pilot program in a timely manner, LG&E should file a report, supported by written testimony, on the operation and results of the pilot program for the period ended March 31, 2002. The report and testimony, which should also reflect any proposed expansion or modification of the prepaid meter program, are to be filed with the Commission and the Intervenors no later than May 31, 2002. The report and testimony should, at minimum, address the issues identified in Appendix A to this Order. Upon receipt of the filing, the Commission will initiate a proceeding to investigate the relevant issues and determine the future of the program.

LG&E s Deviation Request

Because the prepay meters will run in credit mode with customers being subject to LG&E s disconnection policies in the same manner as traditional credit customers during the period from November 1 through March 31, we find that the issue of notice of service terminations is moot for those 5 months. However, it is clearly an issue during the months in which the meters run in prepay mode and service does shut off when the amount of energy for which a customer has paid goes to zero. As stated by LG&E, since the loss of service is due to the customer s not replenishing the prepaid energy on his or her smart card and prepay meter, LG&E does not initiate the termination of service. Since LG&E obtains data on a prepay customer s usage on an after-the-fact basis when the smart card is loaded at the LG&E pay station, LG&E does not know when the customer has allowed his or her paid service to expire. Thus, LG&E has no ability to provide the customer advance notice of a shut-off. Since LG&E does not actually terminate service in the traditional sense, and considering that, from April through October, customers will not be seeking LIHEAP crisis funds, LG&E s request for a deviation from the Commission s regulations on notice of service terminations is reasonable and should be granted for the extended term of the pilot.

FINDINGS AND ORDERS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. LG&E s prepaid meter pilot program should be continued in its current form through the current heating season and until such time as the Commission rules on the program s reasonableness in a later proceeding.

2. LG&E should file with the Commission and the Intervenors no later than May 31, 2002 a report, with supporting testimony, on the results of the pilot from the time of its commencement through March 31, 2002. The report and testimony should, at minimum, address the issues set forth in Appendix A to this Order.

3. Upon receipt of LG&E s report and testimony, the Commission will initiate a formal proceeding to more thoroughly review the pilot prepaid meter program and determine whether it should be terminated, continued, modified, or expanded.

IT IS THEREFORE ORDERED that:

1. LG&E s prepaid meter pilot program shall continue in its current form through the current heating season and until such time as the Commission rules on the program s reasonableness in a later proceeding.

2. LG&E shall file with the Commission and the Intervenors no later than May 31, 2002 a report, with supporting testimony, on the results of the pilot from the time of its inception through March 31, 2002. The report and testimony shall, at minimum, address the issues set forth in Appendix A to this Order.

3. Upon receipt of LG&E s report and testimony, the Commission shall initiate a formal proceeding to more thoroughly review the pilot prepaid meter program and determine whether it should be terminated, continued, modified, or expanded.

Done at Frankfort, Kentucky, this 7th day of January, 2002.

By the Commission

ATTEST:

Wm H Bowker

Deputy Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-548 DATED January 4, 2002

The report and testimony to be filed by LG&E covering its pilot prepaid meter program through March 31, 2002 shall, at minimum, address the following issues.

1. The number of participants over the course of the period ended March 31, 2002, disaggregated to show how many: (1) remained in the program from the time they enrolled through March 31, 2002; (2) were terminated from the program (and the reasons for such termination); and (3) voluntarily left the program (and the reasons for leaving).

2. The number of participants who qualified for LIHEAP funds during the period ended March 31, 2002, or had qualified for LIHEAP funds during the 2000-2001 winter heating season.

3. The number of participants whose enrollment resulted from having sought to resolve a past due bill, an arrearage balance, prior service disconnection, or some other service or payment problem.

4. The number of participants, by month prior to November 1, 2001, who permitted their purchased energy to run down to zero causing their service to shut off, and for the period from November 1, 2001 through March 31, 2002, the number who permitted their purchased energy to run down to zero when that action did not result in service being automatically shut off.

5. The number of participants who permitted their purchased energy to run down to zero multiple times, with the numbers disaggregated to show the number with two, three, and four or more such occurrences.

6. The number of participants with arrearage balances at the time of enrollment showing the number with arrearages of: (a) $100 or less; (b) $100 to $300; (c) $300 to $500; and (d) $500 or greater.

7. For the period ended March 31, 2002, provide on a monthly basis the cumulative arrearage balance of the participants in the program.

8. The number of participants that had received disconnect notices at their current residence during the 12 months immediately prior to enrolling in the program.

9. For program participants as of March 31, 2002, provision of the following monthly comparison that identifies participants by account number and identifies the month each participant enrolled in the program:

   a. Individual monthly electric usage and/or gas usage for the period April 2000 through March 31, 2002, matching April 2000 with April 2001, May 2000 with May 2001, etc.

   b. Individual bill amounts for the period April 2000 through March 31, 2002, matching April 2000 with April 2001, May 2000 with May 2001, etc., with separate identification of the amounts for electric service and/or gas service.