COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR AN ORDER APPROVING A LARGE COMMERCIAL AND INDUSTRIAL REAL-TIME PRICING PILOT PROGRAM	)))))	CASE NO. 2007-00161

O R D E R

On April 20, 2007, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively "the Companies") jointly applied for authorization to implement a large commercial and industrial real-time pricing ("RTP") pilot program pursuant to the Commission's directive in Administrative Case No. 2006-00045.[1] The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), and Kentucky Industrial Utility Customers, Inc. were granted intervention in this proceeding. On May 15, 2007, the Commission established a procedural schedule that allowed for two rounds of discovery, written comments and the opportunity to request a hearing. The AG filed comments on July 12, 2007, and the Companies jointly filed reply comments on July 23, 2007. The Commission received no requests for a hearing.

[1] Administrative Case No. 2006-00045, Consideration of the Requirements of the Federal Energy Policy Act of 2005 Regarding Time-Based Metering, Demand Response, and Interconnection Service, final Order dated December 21, 2006.

In its Order in Case No. 2006-00045, the Commission stated that some large commercial and industrial customers may benefit from RTP tariffs because such customers have greater operating flexibility than smaller customers and because the cost of implementing real-time pricing may be cost effective for them. The Commission acknowledged, however, that the potential of commercial and industrial RTP programs had not been adequately investigated. Therefore, we directed Big Rivers Electric Corp., East Kentucky Power Cooperative, Inc., Kentucky Power Company as well as LG&E and KU to develop voluntary RTP programs for their large commercial and industrial customers that would operate for an initial term of 3 years and submit them to the Commission for review on or before April 20, 2007. Each company has complied with this directive.[2]

Summary of LG&E and KU's Pilot RTP Program

LG&E and KU have proposed an RTP program that will be available to 183 potential participants (128 LG&E customers and 55 KU customers) that are already on Time-of-Day ("TOD") tariffs. In accordance with the Commission's directive, LG&E and KU plan to offer their RTP Program as an optional 3-year pilot program that will remain in effect until modified or terminated by the Commission. The proposed RTP

[2] Case No. 2007-00164, Notice of Amendments to Existing Tariffs of Big Rivers Electric Corporation and Kenergy Corp. to Implement a Voluntary Real-Time Pricing Pilot Program for Large Commercial and Industrial Customers, filed April 20, 2007; Case No. 2006-00165, Application of East Kentucky Power Cooperative, Inc. for an Order Approving a Pilot Real-Time Pricing Program for Large Commercial and Industrial Customers, filed April 20, 2007; and Case No. 2007-00166, Application of Kentucky Power Company for an Order Approving a Pilot Real-Time Pricing Program for Large Commercial and Industrial Customers, filed April 20, 2007.

program will be available to customers for a fixed term of not less than one year and the Companies will not accept new customers following the end of the second year.

The LG&E and KU program is designed to be bill neutral if there is no change in consumption patterns. To accomplish this, the Companies will use a Customer Baseline Load ("CBL") which represents one complete year of hourly firm load data developed from metered interval data for a customer location. The CBL will be adjusted upward or downward each month by the ratio of the actual total monthly consumption to the customer's historic consumption for that month. Although based on historic usage, the CBL is to be mutually agreeable to the customer and the company.

Participating customers will be billed a Program Charge of $140 per month. Actual consumption will be billed at the standard tariff rate and the adjusted CBL will then be subtracted from or added to actual consumption at the hourly RTP depending on the difference in usage for each hour.[3]

The RTP will be the hourly prices for each Company based on projections of the greatest hourly marginal generation supply cost for the next day. Hourly prices will be provided to participants via the Internet on a day-ahead basis and will become binding at 4:00 p.m. of the preceding day. If posted earlier in the day, the Companies may revise the prices prior to 4:00 p.m.

LG&E and KU have budgeted approximately $935,000 for variable and fixed costs including: software and equipment, installation, programming, operations and

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[3] The following is another way to show the method of billing:

RTP Bill = Standard Bill
+ RTP Program Charge
+ Credit or Charge based on Actual Usage versus CBL

maintenance, billing, and other RTP administration expenses. The Program Charge of $140 per month will cover the additional billing, administrative and communication costs. The Companies do not expect 100 percent participation, so they are requesting that recovery of program costs not otherwise recovered through base rates be permitted in their next base rate cases; however, they have not actually requested deferral of such expenses.

LG&E and KU state that, once approved, it will take approximately 8 months to implement the pilot program. The Companies propose to submit annual reports 90 days after the end of each plan year. A final report will be submitted 6 months after the end of the pilot RTP program.

Discussion

Subject to certain conditions, the AG recommends the Commission approve the pilot RTP program proposed by LG&E and KU. Those conditions are discussed below.

First, the AG does not, at this time, agree to the inclusion of any program costs in a future rate case. Second, the AG notes that continued support and interaction between the Companies and participants are necessary for successful results and the AG urges the Commission to require LG&E and KU to clearly advise participants of the implications of the pilot program and provide on-going support to assist participants in their efforts to reduce and/or shift their demand. The AG also requests that successful techniques to reduce and/or shift demand be disseminated among both participants and non-participants in order to maximize any benefits under the program.

Finally, the AG states that LG&E and KU's objectives for the program are to have participants reduce demand during critical peak hours and shift variable demand to low peak hours. The AG notes that the Companies propose to collect data from participants for a period of 3 years to evaluate whether these objectives are achieved and issue annual reports detailing the results obtained under the program to the Commission.

The AG states that the annual reports should contain, at a minimum, the following information:

(1) The current number of program participants.

(2) The type of industry or primary business activity for each participant.

(3) The number of participants that have withdrawn from the program and the reason for such withdrawal.

(4) and (5) The average, minimum and maximum monthly electrical usage and cost for program participants during each 12-month reporting period and the 12-month period immediately preceding enrollment into the program.

(6) All comments and suggestions solicited from program participants.

(7) An evaluation by the Companies of the impact of the program on their peak and/or base demand as compared to their historical data for the 12-month period immediately preceding implementation of the program.

(8) A statement by the Companies of whether the program is achieving the stated objectives and an evaluation of the comments and suggestions of the program participants.

(9) The program costs to the date of the report, along with the details of any deviations from the program budget contained in the application submitted herein.

(10) A cumulative comparison of the information furnished in Items 4 and 5 above to allow year-to-year comparison of program results.

The AG further suggests that such reports be submitted annually to the Commission and distributed to all parties to this proceeding and that the reports be made a part of the record in this matter.

LG&E and KU note the AG's support for their pilot RTP program and state that they have no objection to the conditions set forth by the AG with the clarification that customer data will be reported in the aggregate. Therefore, the Companies request that the Commission expeditiously issue an Order approving the pilot RTP program.

Concerning the AG's request for the Commission to require certain actions of the Companies regarding educating, advising and working with participants, LG&E and KU state they will make every reasonable effort to advise and assist participants. The Companies note that because of the varied business and logistical circumstances of the large commercial and industrial customers, certain cost reducing techniques may be successful for some and not for others. However, the Companies will make reasonable efforts to advise their customers of the best cost reducing practices of which they become aware. The Companies also agree to the reporting requirements, but agree to only provide the customer data in the aggregate as stated above.

The Commission agrees that interaction between the Companies and the participants is important to the program. However, we believe that the steps LG&E and KU plan to take are satisfactory. The Companies state that the potential RTP customers, who are all already on TOD rates, are familiar with the concept of shifting load to lower cost hours and that providing such customers with hourly, real-time rates may further aid them in fine-tuning their energy needs. LG&E and KU have stated that their Major Account Representatives will be the primary contacts with the customers. One of their primary roles will be to work directly with customers on an ongoing basis to address their energy needs such as reducing consumption and load shifting.

In addition to the Major Account Representatives, a project team will oversee installation of the meters and associated equipment. The system will be programmed with real-time exception reporting that will alert the Companies when the system (meters and associated equipment) detects any abnormal function.[4]

To the extent that the AG recommends approval of LG&E and KU's pilot RTP program and since the Companies agree to the conditions set forth by the AG, the Commission has determined that it should approve the pilot RTP program as proposed, subject to the AG's conditions, with a formal review to be held after the third year of operation. However, there are two additional issues that must be addressed.

While the Companies have requested that recovery of program costs not otherwise recovered through base rates be permitted in their next base rate cases, the Commission notes that the total unrecovered program costs for the 3-year period can only be considered for recovery in future base rate cases if those costs are deferred as incurred rather than expensed. If LG&E and KU elect to expense these unrecovered program costs during the 3-year period of the pilot RTP program, only those costs included in the test year of a future base rate case would be considered for recovery in base rates. LG&E and KU characterize the AG's comment regarding the inclusion of program costs in their next rate case as a statement of his intent in offering his comments and state that no response to the comment is required. The Commission interprets the AG's first stated condition not as opposition to deferral but, rather, a statement of his intent to retain his right to address the reasonableness and appropriateness of such costs in the Companies' next base rate cases.

[4] LG&E and KU's Response to the AG's First Request for Information, Item 5(c).

Since the Commission directed the Companies to file a proposed RTP program for review, we find that the Companies should be allowed the opportunity to recover all related expenses. Therefore, LG&E and KU, if they so choose, should be permitted to defer the program costs not recovered through the Program Charge for consideration in their next base rate cases. This will give the Companies the option to expense all program costs currently or to defer the unrecovered costs for later consideration. However, the Companies are placed on notice that if they elect to defer the unrecovered program costs, the reasonableness and appropriateness of the deferred costs will be examined and the disposition of the deferral will be determined in a future base rate case.

LG&E and KU state that the initial CBL is to be mutually agreeable to the customer and the Company. However, the proposed tariffs do not reflect this requirement. Therefore, the Commission finds that LG&E and KU should be required to include a statement relative to this requirement in their RTP tariffs.

The Commission, subject to the minor exceptions or conditions discussed above, authorizes the RTP program proposed by LG&E and KU on a pilot basis subject to the Commission's review after an initial 3-year period. The tariffs shall be in effect until otherwise ordered by the Commission. Since the Companies have stated that it will require approximately 8 months to implement the pilot program, the Commission finds that LG&E and KU shall notify the Commission and the parties to this proceeding of the actual implementation date 10 days prior to the implementation. LG&E and KU shall be required to file the proposed annual reports within 90 days of each plan year-end. Final reports, which the Commission will use to determine whether the pilot tariffs should be continued, and in what form they would continue, if any, shall be filed by June 30, 2011.

IT IS THEREFORE ORDERED that:

1. The pilot RTP program proposed by LG&E and KU is authorized subject to the conditions set forth in this Order.

2. LG&E and KU shall file annual reports within 90 days of each plan year-end that shall include, at a minimum, the 10 items requested by the AG earlier in this Order and shall distribute a copy of each annual report to all parties to this proceeding.

3. LG&E and KU shall include a statement in their RTP tariffs that the initial CBL will be mutually agreeable to the customer and LG&E or KU.

4. LG&E and KU shall submit a detailed evaluation of the pilot RTP to the Commission no later than June 30, 2011, and shall distribute a copy of the detailed evaluation to all parties to this proceeding.

5. LG&E and KU are authorized to establish deferred accounts in which to record unrecovered costs associated with the pilot RTP program.

6. LG&E and KU shall notify the Commission and the other parties to this proceeding of the actual implementation date of the RTP program 10 days prior to implementation.

7. LG&E and KU shall file, within 20 days of the date of this Order, revised tariff sheets consistent with this Order showing their date of issue and that they were issued by the authority of this Order.

Done at Frankfort, Kentucky, this 1st day of February, 2008.

By the Commission

Commissioner Clark Abstains

ATTEST:

Executive Director