

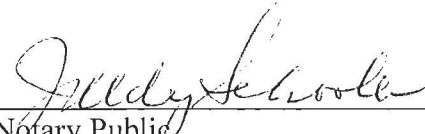
VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for Louisville Gas and Electric Company and Kentucky Utilities Company, an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 17th day of March 2015.

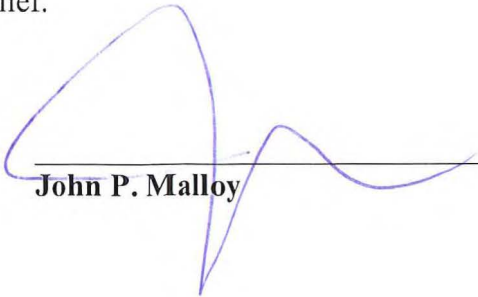
  
\_\_\_\_\_  
Notary Public (SEAL)

My Commission Expires:  
JUDY SCHOOLER  
Notary Public, State at Large, KY  
My commission expires July 11, 2018  
Notary ID # 512743


VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **John P. Malloy**, being duly sworn, deposes and says that he is Vice President, Customer Services for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_ **John P. Malloy**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 27th day of March 2015.

 (SEAL)  
\_\_\_\_\_  
Notary Public

My Commission Expires:  
**JUDY SCHOOLER**  
**Notary Public, State at Large, KY**  
**My commission expires July 11, 2018**  
Notary ID # 512743

**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2014-00372**

**March 27, 2015 Supplemental Response to Commission Staff's Third Request for  
Information  
Dated February 6, 2015**

**Question No. 22**

**Responding Witness: John P. Malloy / Robert M. Conroy**

Q-22. Refer to LG&E's response to Item 71 of Staff's Second Request.

a. Refer to the response to Item 71.c.(4).

- (1) The response refers to two criteria used in determining exemption from the DSM charge, one of the criteria being the North American Industry Classification System ("NAICS") codes. Identify the second criterion.
- (2) Explain why the NAICS code is unavailable for 19 accounts and why these accounts are exempt from the DSM charge.
- (3) LG&E's DSM tariff lists the following NAICS codes as being exempt from the DSM charge: 21, 22, 31, 32, and 33. This response shows a number of exempt accounts with codes that are not listed in LG&E's DSM tariff. Provide a description of each of those codes (those codes outside of 21, 22, 31, 32 and 33) and explain why the accounts shown with those codes are exempt from the DSM charge, in light of LG&E's response to Item 71.b. that "the remaining NAICS sections are comprised predominantly of customers that are not primarily engaged in a process or processes that create or change raw or unfinished materials into another form or product."

c. Refer to the response to Item 71.c.(6). For each customer with a NAICS code other than 21, 22, 31, 32, and 33, explain how the customer qualifies to be exempt from the DSM charge.

A-22. **Original Response:** In preparing the response to this request for information, the Company has determined that the data it provided in its responses to the subparts PSC 3-71 is not accurate and should be revised. The Company is working to assemble corrected data and will file a supplemental response to PSC 3-71 no later than Friday, February 27. The Company will file a corresponding supplemental response to this request at the same time.

**February 27, 2015 Supplemental Response:**

The Company is working diligently to review and assemble the accurate data responsive to this request and to PSC 2-71. To ensure the accuracy of the information and the completeness of the responses to the requests, the Company is undertaking a business process review of its records and data. This review will be completed and a supplemental response will be filed no later than March 27, 2015.

The Company acknowledges the Commission's stated intention in its November 14, 2014 Order in Case No. 2014-00003 to review the Company's definition of industrial customers by NAICS codes for reasonableness. The disposition of this issue, however, will not influence the resolution of the revenue requirement, revenue allocation, cost of service study or rate design issues presented in the Company's application. The revenues and costs associated with the DSM mechanism were removed from the calculation of the revenue requirement and cost of service study. The Company is not proposing to change the terms or conditions of its DSM mechanism in this case.

**March 27, 2015 Supplemental Response:**

LG&E has now completed the data and business-process reviews to which its February 27, 2015 Supplemental Response referred. This review process has resulted in improved accuracy and completeness of LG&E's data concerning customer contracts classified as industrial for DSM purposes, and will help ensure increased accuracy in contract classification in the future. The results of this review are presented in this response and in the supplemental response to PSC 2-71 LG&E is filing today. The Companies' internal report on the data and business-process review they conducted related to these data requests is attached to this response to provide detailed background information and a description of the review process.

a. (1) LG&E's tariff states:

For purposes of rate application hereunder, non-residential customers will be considered "industrial" if they are primarily engaged in a process or processes that create or change raw or unfinished materials into another form or product, and/or in accordance with the North American Industry Classification System, Sections 21, 22, 31, 32, and 33. All other nonresidential customers will be defined as "commercial."<sup>1</sup>

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<sup>1</sup> Louisville Gas and Electric Company, P.S.C. Electric No. 9, First Revision of Original Sheet No. 86. LG&E's gas tariff explicitly refers to the definition of "industrial" in LG&E's electric tariff, and is therefore the same: "Any industrial gas customer who also receives electric service from the Company as an industrial customer, and has elected not to participate in a demand-side management program hereunder, shall not be assessed a charge pursuant

Therefore, there are two criteria LG&E may use to determine if a customer contract is industrial: (1) whether the customer is “primarily engaged in a process or processes that create or change raw or unfinished materials into another form or product”; and (2) the listed NAICS codes.

- (2) After conducting the review process described above, and as shown in LG&E’s supplemental response to PSC 2-71, there are 3 LG&E contracts that should be classified as industrial for DSM purposes that lack NAICS codes. The codes are missing because LG&E was unable to locate NAICS codes for the relevant business partners, notwithstanding LG&E’s diligent efforts to find them. But as noted above, NAICS codes are only one of the two criteria LG&E uses to classify customers as industrial or non-industrial for DSM purposes. Therefore, the 3 LG&E contracts classified as industrial for DSM purposes that lack NAICS codes are classified as industrial because, after performing the review process described above, LG&E believes each of these contracts serves “a process or processes that create or change raw or unfinished materials into another form or product.”
- (3) Please see the table below for the requested NAICS sector codes and descriptions:<sup>2</sup>

Sector	Description
21	Mining, Quarrying, and Oil and Gas Extraction
22	Utilities
23	Construction
31-33	Manufacturing
42	Wholesale Trade
44-45	Retail Trade
48-49	Transportation and Warehousing
53	Real Estate and Rental and Leasing

LG&E assigns NAICS codes at the business-partner level, not at the contract level. But it is at the contract level (i.e., the electrical installation level) that LG&E assigns an industrial or non-industrial classification for DSM purposes. It is therefore possible for a business to have an NAICS code other than the five listed in LG&E’s tariff and to have contracts that are industrial for DSM purposes. For example, a business that is primarily engaged in the retail sale of mattresses, and therefore would have an NAICS sector code of 44 or 45, could have a manufacturing facility for manufacturing its own line of mattresses; although the contract for the manufacturing facility would not have one of the five NAICS

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to this mechanism.” Louisville Gas and Electric Company, P.S.C. Gas No. 9, First Revision of Original Sheet No. 86.

<sup>2</sup> <http://www.census.gov/cgi-bin/sssd/naics/naicsrch?chart=2012> (viewed on March 19, 2015).

sector codes listed in LG&E's tariff, LG&E would classify the contract for the manufacturing facility as industrial for DSM purposes because the service under the contract would be for "a process or processes that create or change raw or unfinished materials into another form or product." Therefore, the 35 LG&E contracts that should be classified as industrial for DSM purposes that have NAICS sector codes other than the five listed in LG&E's tariff are so classified because the contracts serve "a process or processes that create or change raw or unfinished materials into another form or product."

- c. Please see the response to a.(3) above.

# **DSM Industrial Customer Validation Project Report**

**March 27, 2015**

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## Executive Summary

In preparing a response to the PSC's request for information in Cases 2014-00371 and 2014-00372, the Company determined that data related to how industrial customers are identified and classified for DSM purposes needed to be evaluated and revised. The Company assembled a team of 20 employees over the course of approximately five weeks and completed a business process review of its records and data to ensure the accuracy of the information and the completeness of the response to the Commission's questions. The purpose of this report is to document that business process review and the results of that review.

The Companies completed a multi-step data review (details provided in Appendix C – Process Summary) of 159,412 non-residential contracts to determine which were industrial for DSM purposes as defined in the Companies' DSM tariff provisions.<sup>1</sup> As a result of this review process, the Companies have determined that a total of 2,320 contracts should be classified as industrial for DSM purposes (1,417 for KU, 671 for LG&E electric, 232 for LG&E gas). Of those, 1,405 are contracts the Companies had previously classified as industrial for DSM purposes, and 915 are contracts the Companies had previously classified as non-industrial for DSM purposes. The Companies therefore plan to reclassify 1,006 contracts from industrial to non-industrial for DSM purposes. Therefore, out of 159,412 contracts reviewed, the Companies reclassified a total of 1,921, which is about 1.2% of the contracts reviewed.

In addition, the Companies have reviewed and revised their business processes to ensure that new contracts are consistently and appropriately classified as industrial or non-industrial for DSM purposes by formalizing and integrating into their customer-service practices the business process improvements resulting from this review.

## Background

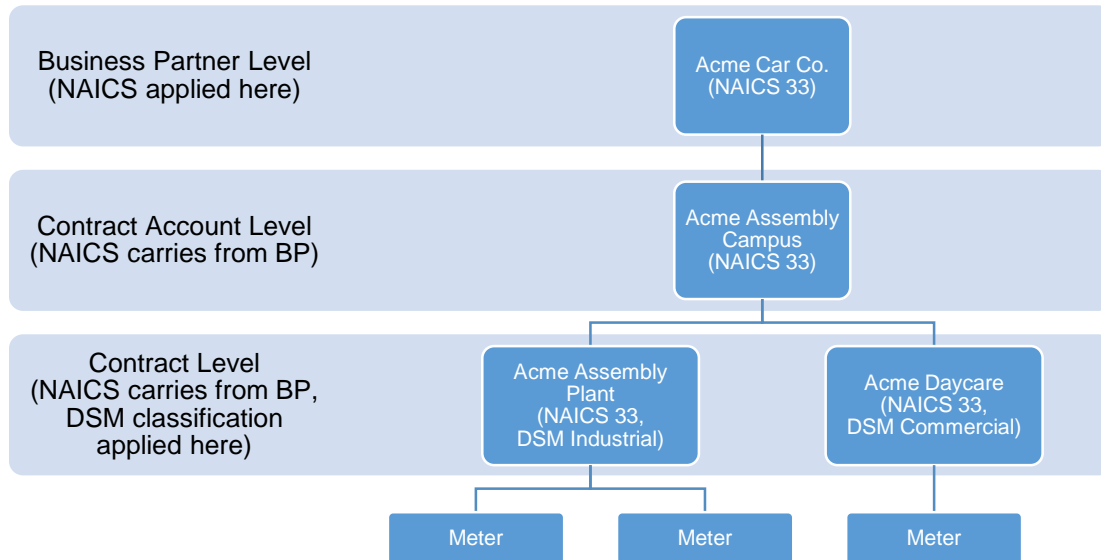
The Companies' data systems store information about customers and their service at several levels. At the highest level is the business partner, which is the business or individual ultimately responsible for service taken from KU or LG&E. Each business partner has one or more contract accounts; the Companies apply payment terms, taxing status, and installment plans at the contract-account level. Each contract account applies to one or more contracts for service, and a contract applies to one or more metered or unmetered services. (A "contract" most often means standard service taken under KU's or LG&E's tariff.) Therefore, for a typical residential electric customer, there is only one meter, one contract (standard tariff service), one contract account, and one business partner (usually the resident). But for a large automobile manufacturer with two assembly plants in the Companies' combined service territory, for example, the business partner is the corporate entity, which likely will have two contract accounts (one for each assembly plant), and there could be multiple contracts per contract

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<sup>1</sup> The relevant tariff provisions state, "[N]on-residential customers will be considered 'industrial' if they are primarily engaged in a process or processes that create or change raw or unfinished materials into another form or product, and/or in accordance with the North American Industry Classification System, Sections 21, 22, 31, 32, and 33. All other nonresidential customers will be defined as 'commercial.'"

account, with each contract accounting for one or more meters at each service installation (e.g., an assembly plant with a separate daycare facility for employees’ children would likely have at least two contracts, one for the assembly plant and one for the daycare center).

The Companies apply NAICS codes at the business-partner level, whereas they apply industrial status for DSM purposes at the contract level:



As developed and defined by the federal government, a North American Industry Classification System (“NAICS”) code applies to an entire business, not to an individual utility contract, which is why the Companies apply NAICS codes at the business-partner level.<sup>2</sup> That NAICS-code assignment then applies to all lower levels of data for the business partner, including all contracts for the customer.

**The business process review**

KU and LG&E’s business process review examined all non-residential metered contracts—a total of 159,412 contracts—to determine if they were appropriately classified as industrial or non-industrial for DSM purposes. At the beginning of the review process, the Companies identified a total of 2,411 contracts classified as industrial for DSM purposes (1,637 for KU, 291 for LG&E gas, 483 for LG&E electric). In a process that involved multiple business groups and as many as 20 employees working full time and on weekends for five weeks, the Companies applied the following review process to each account:

1. If the business partner for the contract did not have an NAICS code, the Companies conducted research to determine the appropriate code..

<sup>2</sup> See <http://www.census.gov/eos/www/naics/> (“The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.”) (Viewed on Mar. 18, 2015.)

2. If the business partner for the contract had one of the five NAICS codes in the DSM tariff, the Companies applied a presumption in favor of industrial status for the contract's next step of review. If the business partner for the contract did not have one of the five NAICS codes in the DSM tariff, the Companies applied a presumption against industrial status for the contract's next step of review.
3. The Companies then checked whether the contract was currently classified in their database as industrial for DSM purposes. If the Companies' current classification of the contract matched the presumption from step 2 above, the Companies then checked the name of the business partner to determine if it indicated that the business partner was or was not "primarily engaged in a process or processes that create or change raw or unfinished materials into another form or product." If the business partner's name did not provide evidence clearly refuting the Companies' current classification of the contract and the presumption from step 2 above, the Companies did not change the contract's current classification. Otherwise, the Companies proceeded to step 4 below.
4. At this step, the Companies applied their Validation Methodology to the contract. The Validation Methodology involved more in-depth research to determine if the contract served "a process or processes that create[d] or change[d] raw or unfinished materials into another form or product." Research included determining if the business partner was listed in the Kentucky Directory of Manufacturing, examining the business partner's website, conducting Internet research on the facility at the contract's address, and researching information in the Companies' possession about the business partner and contract. If this additional research indicated the contract was serving "a process or processes that create[d] or change[d] raw or unfinished materials into another form or product," the Companies classified it as industrial for DSM purposes; otherwise, the Companies classified it as non-industrial for DSM purposes.
5. The Companies performed an additional quality-control check of all contracts earmarked to be changed from non-industrial to industrial during the data review that had annual usage less than 12,000 kWh (roughly the annual usage of a residential customer in the Companies' service territories). All contracts found to have annual usage less than 12,000 kWh remained classified as non-industrial. .
6. The Companies performed an additional quality-control check to ensure that all contracts with utility entities for service under time-of-day rates or rates with minimum demand requirements higher than time-of-day rates were classified as industrial for DSM purposes.

## Results of review

Having completed the review process, the Companies have determined that a total of 2,320 contracts should be classified as industrial for DSM purposes (1,417 for KU, 671 for LG&E electric, 232 for LG&E gas). Of those, 1,405 are contracts the Companies had previously classified as industrial for DSM purposes, and 915 are contracts the Companies had previously classified as non-industrial for DSM purposes. The Companies therefore plan to reclassify 1,006 contracts from industrial to non-industrial for DSM purposes. Therefore, out of 159,412

contracts reviewed, the Companies reclassified a total of 1,921 resulting in reclassification of about 1.2%.

<i>Current DSM Status</i>	<i>Company</i>	<i># of Contracts</i>	<i>Validated Exempt</i>	<i>Validated Non-Exempt</i>
<i>Exempt</i>	<i>KU</i>	<i>1,637</i>	<i>962</i>	<i>675</i>
	<i>LG&amp;E Gas</i>	<i>291</i>	<i>165</i>	<i>126</i>
	<i>LG&amp;E Electric</i>	<i>483</i>	<i>278</i>	<i>205</i>
	<i>Total</i>	<i>2,411</i>	<i>1,405</i>	<i>1,006</i>
<i>Non-Exempt</i>	<i>KU</i>	<i>85,580</i>	<i>455</i>	<i>85,125</i>
	<i>LG&amp;E Gas</i>	<i>24,774</i>	<i>67</i>	<i>24,707</i>
	<i>LG&amp;E Electric</i>	<i>46,647</i>	<i>393</i>	<i>46,254</i>
	<i>Total</i>	<i>157,001</i>	<i>915</i>	<i>156,086</i>
<b>Grand Total</b>		<b>159,412</b>	<b>2,320</b>	<b>157,092</b>

The results of this review process were summarized and presented to senior management via a PowerPoint presentation. Senior management is supportive of the process and the actions and business process improvements needed to resolve this issue.

## **Actions and business process improvements to be taken**

### Modified business processes going forward

Although the Companies believe reclassification rate of 1.2% is low, they have reviewed and revised their business processes to ensure that new contracts are more consistently and appropriately classified as industrial or non-industrial status for DSM purposes by formalizing and integrating into their customer-service practices the Validation Methodology used in this review. In summary, when a customer signs up for new service (new installation or move out / move in), the Companies' front-office personnel, including the Business Service Center, Business Offices, and Major Accounts Representatives, will inquire about the use of the service to aid in determining industrial status and NAICS classification. On a weekly basis, Billing Integrity will review all new metered services moved in during the prior week. Using the information from the front-office personnel, Billing Integrity will review to ensure that the DSM status of each new contract is correct. If there is not enough information to make a valid determination, Billing Integrity will create a service order seeking more information from the field. Finally, when working field service orders, Field Service will provide additional information in their notes about the premise and use of the service which will then be updated in CCS.

While these business process improvements should improve the consistency and appropriateness of the classifications of industrial or non-industrial status for DSM purposes, this process improvement cannot guarantee there will not be small numbers of future misclassifications (e.g., customers can repurpose existing facilities without informing the Companies, perhaps causing a previously correct classification to become incorrect).

## Appendix A - Timeline and Work Outline Document

### Criteria

- DSM billing determinants will remain at the “contract” level within CCS (billing determinants are tariff rates and DSM operand)
- Contracts for utility services that support a process that transforms raw material to finished goods will not pay into DSM.
- Contracts associated with Business Partners with NAICS classification of 21, 22, 31, 32, or 33 shall not be assessed DSM unless the associated utility service supports a process that does not transform raw materials to finished goods.

### Assumptions

- All tariff rates are accurately applied within CCS for the service level being provided.
- This project will address the DSM billing status of a contract. No other review will be done, including any ADID classification review.
- Only active metered non-Company contracts will be reviewed.
- All activity within this validation project will be managed within a database outside CCS
- Decisions on updating CCS will be made:
  1. Changes in NAICS codes which have no billing impacts will be done as part of this project
  2. DSM operand/rate changes which have no customer bill impacts will be done as part of this project.
  3. Corrections required which impact customer bills will not be part of this project. A recommended process will be provided.

### Project Purpose

- Validate the current DSM billing status of non-residential contracts within CCS.
- Validate the current NAICS code assignment of non-residential business partners within CCS.
- Incorporate identified enhancement opportunities into business practices.
- Improve business processes related to identifying Industrial customer for DSM purposes.

### Validation Methodology

- Validate the DSM billing status and NAICS assignments for all non-residential electric contracts currently assigned NAICS of 21, 22,31,32,33 that are currently paying into DSM.
- Validate the DSM billing status of current class of all electric contracts not paying DSM. (NAICS / raw material-finished goods)
- Validate the DSM billing status of remaining electric contracts currently paying into DSM in descending order based on tariff rates as follows:

- LGE – RTS – Retail Transmission Service
- KU – RTS – Retail Transmission Service
- KU – TODP – Time-of-Day Primary Service
- LGE – ITOD – Industrial Time-of-Day Primary Service
- LGE – CTOD - Commercial Time-of-Day Primary Service
- KU – TODS – Time-of-Day Secondary Service
- LGE – TOD – Time-of-Day Secondary Service
- KU – PS – Power Service
- LGE – PS - Power Service
- KU – AES – All Electric School Rate
- KU – GS – General Service
- LGE – GS – General Service
- Validate the DSM billing status of all remaining non-residential gas contracts for the tariff rates below.
  - LGE – IGS – Firm Industrial Gas Service
  - LGE – FT – Firm Gas Transportation
  - LGE – CGS – Firm Commercial Gas Service
  - LGE – AAGS – As-Available Gas Service
  - LGE – TS – Gas Transportation Service/Standby

**Timeline**

- Senior Management review and approval of methodology – Thu 2/26/2015, Tue 3/3/2015
- Team Development and Deployment – Thu 2/26/2015
- Validation process started – Thu 2/26/2015
- Develop master tracking database – Thu 2/26/2015
- Updates to be provided Tuesday/Friday mornings throughout the project.
  - 30 minute WebEx - 3/3/2015, 3/6/2015, 3/10/2015, 3/17/2015, 3/20/2015, 3/23/2015
- Develop draft PSC responses and process improvement recommendations by 3/20/2015
- File Responses with the Commission by 3/27/2015

**On-Going Operations**

- Enhancements to customer set-up associated with new installations and move in/out processes are under development and will be shared by 3/27/2015 with the draft PSC responses.

**Executive Sponsors:** John Malloy, Ed Staton, Valerie Scott

**Senior Management:** David Huff, Steve Woodworth, Chris Garrett, Robert Conroy, Allyson Sturgeon

**Project Lead:** Michael Hornung

**Project Leadership Team:** Lora Aria, Jon Winfrey, Frank Mazza, Michael Lowery, Rick Lovekamp



## Appendix B - Industrial Determination for Participation in DSM Programing<sup>3</sup>

### Validation Methodology

Purpose of these validation efforts are to determine if a customer is industrial at the contract level of the Companies Customer Care System (CCS) - Industrial is defined in the Companies Tariff Sheet No. 86. The definition is based upon certain tariff rates, a determination as to whether a customer's process creates or changes raw materials into another form or product and/or certain NAICS classifications.<sup>4</sup>

To determine if a customer contract is industrial (DSM Exempt):

1. Look up company name of the contract in the Kentucky Directory of Manufacturing. If it is listed in the directory then it is considered to be industrial (DSM Exempt).
2. If the company's name is not found in the Kentucky Directory of Manufacturing, then search for the company's website. Most business websites list the locations of their facilities and the purpose or use of the facility. Search for the facility identified by the contract and look for the word manufacturing or description of the customer process. If the process description describes the conversion of unfinished materials into another form or product then it is considered industrial. Note: This is not always straightforward. See the section on examples to help with the determination.
3. If unsuccessful in making a determination in step two, then search for the address of the facility listed in the contract on the internet. Sometimes this search results in information about the facility process which can be used to determine if the facility is industrial as described above.
4. If unsuccessful in step three, then search CCS service order notes for information that could be helpful to make a determination as described above.
5. If all four steps above are unsuccessful in making a determination, then the status remains unknown and information will be sought from the local Business Office, Business Service Center, or Major Accounts to make a determination.
6. Unless information is found that refutes with the Business Partner (BP) NAICS classification, then the contract will remain classified based solely upon the NAICS designation.

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<sup>3</sup> DSM Exempt has been used as a general term to indicate a customer contract is considered industrial and should not be paying into DSM. Industrial customers are not paying into DSM because there is no program offering for industrial customers at this time and KRS 278.285(3) states that costs of demand-side management programs shall be assigned only to the class or classes of customers which benefit from the programs. Likewise, DSM Non-Exempt has been used generically to indicate a customer contract is not industrial and should be assessed DSM charges. For clarification, no consideration has been given to the portion of KRS278.285(3) that allows individual industrial customers with energy intensive processes to implement cost-effective energy efficiency measures in lieu of measures approved as part of the utility's demand-side management programs when using the term DSM Exempt or DSM Non-Exempt in the context of this effort to classify industrial customers.

<sup>4</sup> The Companies electric tariff sheet No. 86 states, This schedule is mandatory to Residential Rate RS, Volunteer Fire Department Rate VFD, General Service Rate GS, Power Service Rate PS, Time-of-Day Secondary Service Rate TODS, Industrial Time-of-Day Primary Service Rate ITODP, Commercial Time-of-Day Primary Service Rate CTODP, Retail Transmission Service Rate RTS, and Low Emission Vehicle Service Rate LEV. Industrial customers who elect not to participate in a demand-side management program hereunder shall not be assessed a charge pursuant to this mechanism. For purposes of rate application hereunder, non-residential customers will be considered "industrial" if they are primarily engaged in a process or processes that create or change raw or unfinished materials into another form or product, and/or in accordance with the North American Industry Classification System, Sections 21, 22, 31, 32, and 33. All other nonresidential customers will be defined as "commercial."

**Examples for Making an Industrial Determination**

Some determinations are straightforward. For example, churches, offices, child care facilities, distribution centers, warehouses, retail stores, cell towers, and guard shacks are not manufacturing although the Business Partner may have a NAICS code which is 21, 22, 31, 32, or 33 (manufacturing NAICS code). Contracts, which are specific to the service provided, inherit the NAICS code from the Business Partner (BP) level. At the contract level these accounts should be left as non-industrial (DSM Non-Exempt) and will be charged for DSM programming.

Making a determination is not always straightforward. Use the examples and discussion below as guidance when researching, evaluating, and deciding on industrial customer classification for DSM purposes. Always ask questions about the data and seek advice from other employees

<b>Company or Facility</b>	<b>Industrial or Manufacturing</b>	<b>Reason</b>
Welding equipment manufacturer	Yes	The word manufacturer is in the title and the company has a manufacturing NAICS code.
Coal Mine	Yes	The process of removing coal from the ground, processing it for sale, meets the definition of changing raw or unfinished materials into another form or product, and the company has a manufacturing NAICS.
Large Printing Facilities	Yes	Printing facilities carry a manufacturing NAICS code as they are using paper and ink to create a variety of other products such as large prints for mounting.
Water Treatment Facilities	Yes	Utilities are classified under code 22 in NAICS. Arguably the conversion of river water to tap water is using a process to change a raw material into another form.
Utility Waste Treatment Facilities	Yes	Utilities are classified under code 22 in NAICS. Treatment stations are part of the utility process to convert raw material into a form suitable for disposal.
Child Care Facility Office Distribution Facility Guard Shack Cell Tower Retail Store	No	None of these facilities are within the manufacturing NAICS codes. However, if the facility is part of a company which is classified within the manufacturing NAICS codes then the facility will show the same NAICS code. Because the facility is not engaged in a process to change raw material into another product it is not industrial although it may have a NAICS code in CCS.

If a determination cannot be made using these guidelines then the contract should be flagged for further evaluation by management.

## Appendix C - Process Summary

### Exempt to Non-Exempt

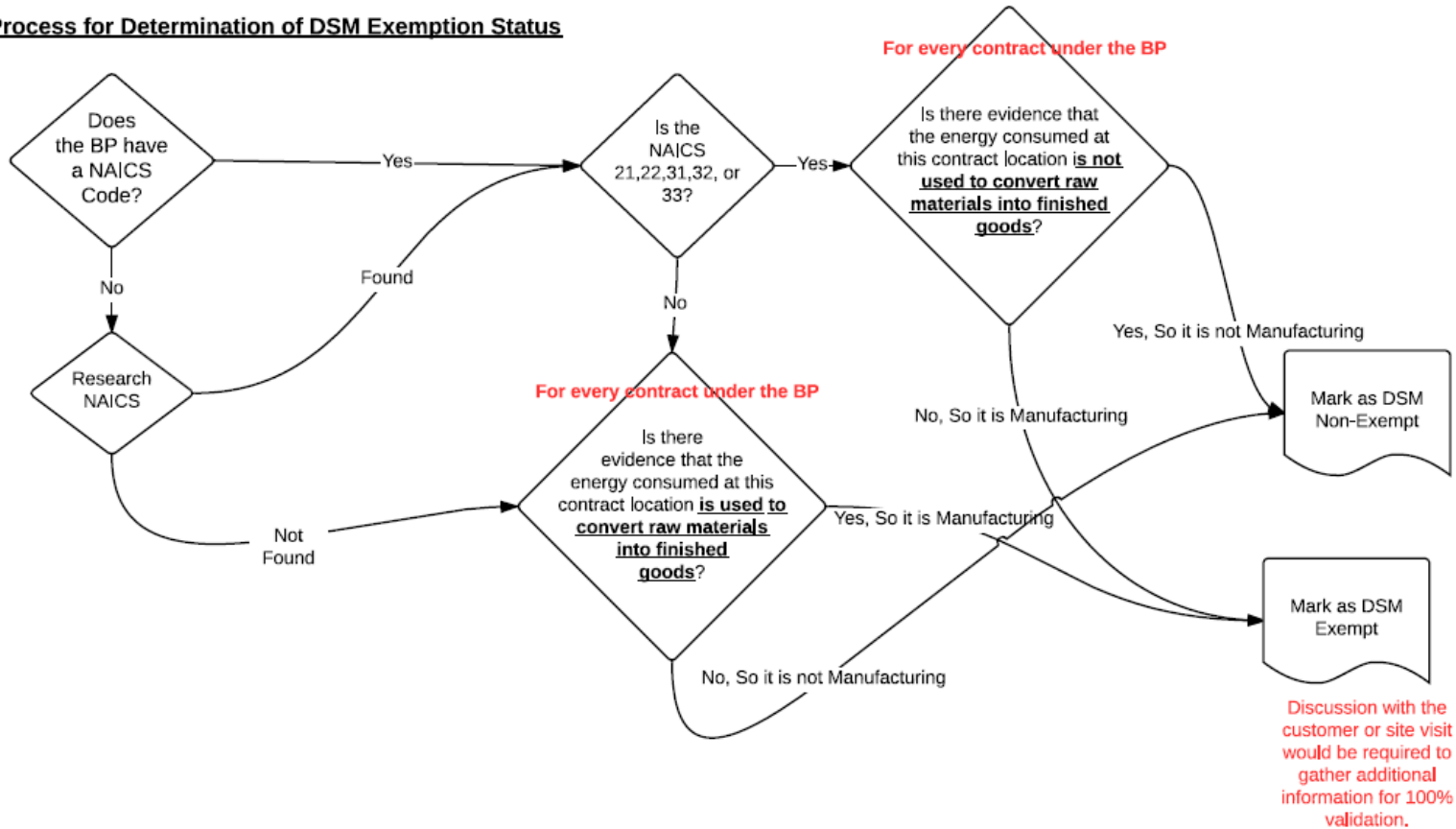
1. Initial research of exempt contracts (2,411) resulted in finding 516 contracts that are not considered industrial based upon “determination criteria” laid out in the process flow for reviewing these accounts.
2. A secondary qualitative review of the contract name resulted in an additional 490 contracts that should not be exempt resulting in a total of 1,006 (516 + 490) which are not considered industrial.
3. Consumption on this set of data is not a determining factor. i.e. Consumption < 12,000 KWH/YR – not manufacturing because consumption is less than average residential; likewise consumption > 12,000 KWH/YR is not a determining factor because it was previously determined that the contract activities are not considered industrial and thus the consumption is being used for non-industrial purposes.

### Non-Exempt to Exempt

1. Initial research of non-exempt accounts (157,001) resulted in 3,099 identified as potentially industrial based upon “determination criteria” laid out in the process flow for reviewing these accounts.
2. A secondary qualitative review determined that 1,758 of the 3,099 above are not “primarily” engaged in manufacturing based upon review of the contract name. Many of these may have NAICS codes of 21, 22, 31, 32, or 33, however their main work is not “primarily related to changing raw materials into another form.” For example, a small brewery with a restaurant, their primary function is serving food to others not necessarily brewing. This resulted in a net of 1,341 (3,099 – 1,758) potential additional manufacturing contracts, i.e. moving from non-exempt to exempt.
3. Consumption was used to further review the net of 1,341. Average residential consumption (12,000 KWH/YR) was used as the criteria to further review these contracts. If consumption was greater than 12,000 KWH/YR (average residential consumption) then the contract was considered to be manufacturing. This resulted in a net total of 989 (1,341 – 352) contracts determined to be engaged primarily in the activity of manufacturing.
4. These 989 accounts were then reviewed for participation in Energy Efficiency programs since the inception of the account. 74 accounts participated in Energy Efficiency and were determined to be non-manufacturing, resulting in a final net of 915 accounts (989-74).
5. In summary: Originally, 2,411 contracts were exempt from DSM. After review, 1,006 were determined to not be industrial and an additional 915 previously not identified as industrial were added, resulting in a total of 2,320 industrial/DSM exempt customers.

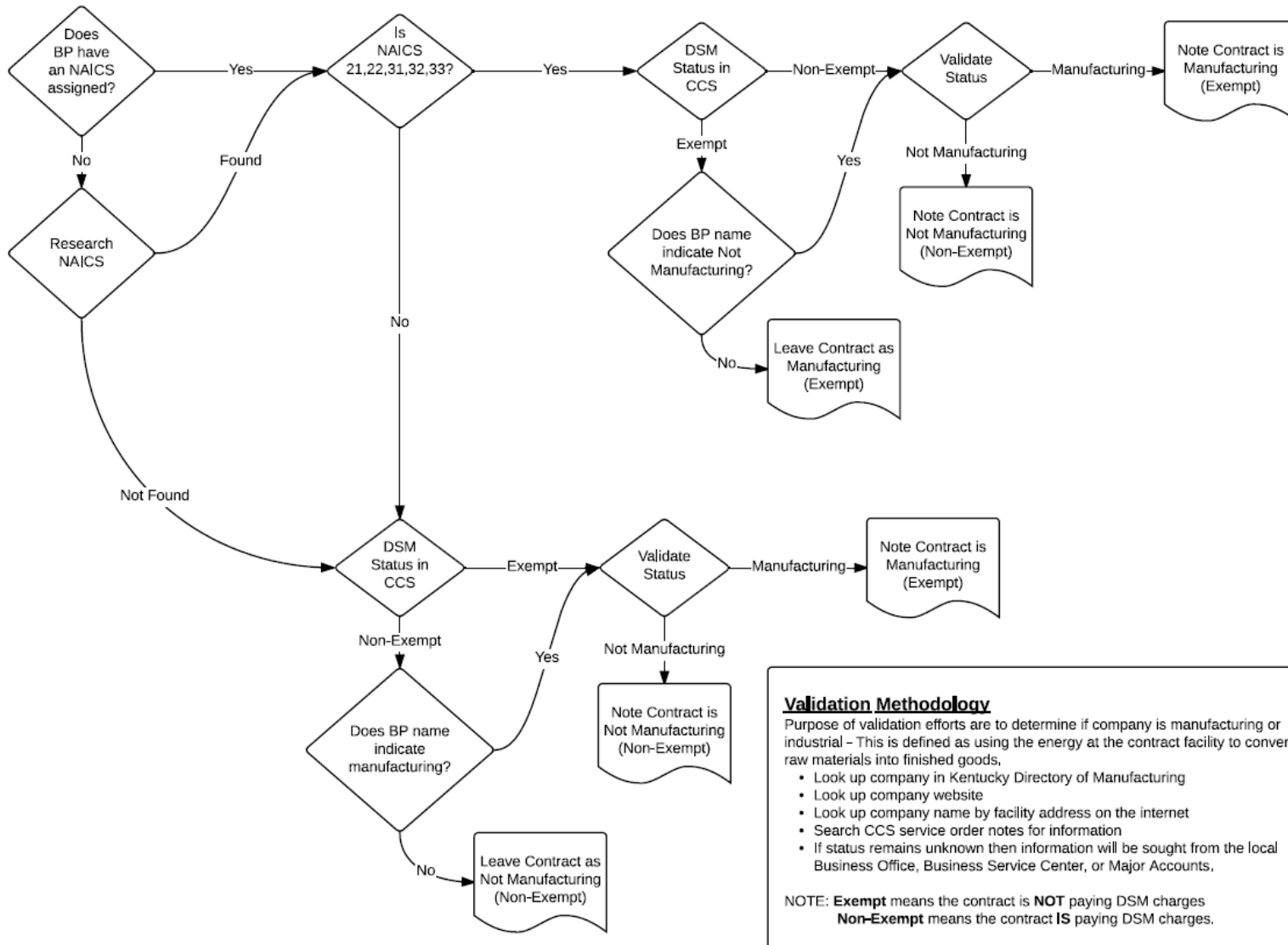
Appendix D - Process Flow Diagrams - Determination of DSM Exemption Status

Process for Determination of DSM Exemption Status



Customers will not be called and no site visit will be conducted at this time. The need for these activities will be made at a future date.

**Process for Determination of DSM Exemption Status**



**Validation Methodology**

Purpose of validation efforts are to determine if company is manufacturing or industrial - This is defined as using the energy at the contract facility to convert raw materials into finished goods.

- Look up company in Kentucky Directory of Manufacturing
- Look up company website
- Look up company name by facility address on the internet
- Search CCS service order notes for information
- If status remains unknown then information will be sought from the local Business Office, Business Service Center, or Major Accounts.

NOTE: **Exempt** means the contract is **NOT** paying DSM charges  
**Non-Exempt** means the contract **IS** paying DSM charges.