

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--|---|----------------------------|
| ELECTRONIC JOINT APPLICATION OF |) | |
| LOUISVILLE GAS AND ELECTRIC |) | |
| COMPANY AND KENTUCKY UTILITIES |) | |
| COMPANY FOR REVIEW, MODIFICATION, |) | |
| AND CONTINUATION OF CERTAIN |) | CASE NO. 2017-00441 |
| EXISTING DEMAND-SIDE MANAGEMENT |) | |
| AND ENERGY EFFICIENCY PROGRAMS |) | |

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY
TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED JANUARY 23, 2018

FILED: FEBRUARY 7, 2018

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Rick E. Lovekamp**, being duly sworn, deposes and says that he is Manager – Regulatory Strategy/Policy 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.


Rick E. Lovekamp

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 6th day of February 2018.


Notary Public (SEAL)

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
AND KENTUCKY UTILITIES COMPANY**

**Response to the Commission Staff's First Request for Information
Dated January 23, 2018**

Case No. 2017-00441

Question No. 1

Witness: Gregory S. Lawson / Rick E. Lovekamp

- Q-1. Refer to the Application, paragraph 24. Does the Companies' projected total Demand-Side Management-Energy Efficiency ("DSM-EE") portfolio cost of \$98.25 million from 2019 to 2025 reflect the recently enacted Tax Cuts and Jobs Act reductions in federal corporate income tax rates? If not, provide a schedule containing the effects the rate reductions will have on the portfolio cost.
- A-1. The portfolio cost of \$98.25 million will not change due to the recently enacted Tax Cuts and Jobs Act ("Tax Act") reductions in federal and corporate income taxes. This portfolio cost is made up of the individual program budgets and collected via the DSM mechanism. However, the DSM Capital Cost Recovery ("DCCR") portion of the mechanism will be impacted by the Tax Act. Attached are revised supporting calculations provided in Excel format for 2019. In addition, a correction to the DSM Cost Recovery ("DCR") portion is included in this revision. This correction entailed removing some additional expenses from the AMS Opt-in Customer Service Offering that were included in DCR component of the original file that were already included in the DCCR component.

The attachments are
being provided in
separate files in Excel
format.

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Case No. 2017-00441

Question No. 2

Witness: Gregory S. Lawson

- Q-2. Refer to the Direct Testimony of Gregory S. Lawson ("Lawson Testimony"), page 2, lines 9-11. Provide an example illustrating the difference between a program being cost-effective at the program level versus cost-effective based on achievable potential.
- A-2. Analysis of programs in the potential study performed by Cadmus is done based on achievable potential. Programs are evaluated at this level based on the measure savings and costs only. When evaluating programs at the program level, additional costs necessary to run a program are included, such as vendor fees, Evaluation, Measurement and Verification ("EM&V"), and labor costs.

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**Response to the Commission Staff's First Request for Information
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Case No. 2017-00441

Question No. 3

Witness: Gregory S. Lawson / Rick E. Lovekamp

- Q-3. Refer to the Lawson Testimony, page 15, lines 11-15. Provide examples of how the Companies will continue education efforts regarding the benefits of reduced energy consumption.
- A-3. Mr. Lawson's testimony states at page 15, "Although the Companies propose to let the [Customer Education and Public Information Program] expire, the Companies are committed to continuing education efforts regarding the benefits of reduced energy consumption, though not as a DSM-EE program in the Proposed DSM-EE Program Plan. In addition, program-specific advertising costs are included in each program's budget." The Companies presently anticipate seeking in a future base-rate case to recover the cost of energy-efficiency education efforts not already included in individual DSM-EE program budgets. Those efforts might include such things as mailers, partnerships with trade allies, and local energy conferences.

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Response to the Commission Staff's First Request for Information

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Question No. 4

Witness: Gregory S. Lawson / David E. Huff

Q-4. Refer to the Lawson Testimony, page 17, line 14.

- a. Apart from the WeCare Program, explain why the Commission should approve programs in which the total resource costs ("TRC") ratios are less than one and the resulting costs impose a burden on those not participating in the programs and on low-income customers.
- b. Refer to the Lawson Testimony, page 29, lines 13-15. Explain how spending customer dollars on programs which are not cost-effective based on the TRC scores is a prudent and good application of customer dollars.

A-4. a. and b.

The Commission has historically taken the position that no one cost-benefit test is dispositive with regard to DSM-EE programs, and has further taken the view that evidence beyond the four traditional California tests could support the need for a program.¹ The Companies believe the entirety of their proposed DSM-EE portfolio provides rate-and-service-related benefits that exceed their costs.

Below is the table showing the results of the required four traditional California cost-benefit tests, which appears in the Testimony of Gregory S. Lawson at page 17:

¹ *In the Matter of the Joint Application of the Members of the Louisville Gas and Electric Company Demand-Side Management Collaborative for the Review, Modification, and Continuation of the Collaborative, DSM Programs, and Cost Recovery Mechanism*, Case No. 1997-00083, Order at 17-18 (April 27, 1998).

| Program | TRC | PCT | RIM | PAC |
|--|-------------|-------------|-------------|-------------|
| Nonresidential Rebates | 1.14 | 2.14 | 0.49 | 4.23 |
| PD&A | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Energy Efficiency and PD&A | 1.06 | 2.14 | 0.47 | 3.31 |
| Residential and Small Nonresidential Demand Conservation | 0.00 | N/A | 0.00 | 0.00 |
| Large Nonresidential Demand Conservation | 0.01 | 1.62 | 0.01 | 0.01 |
| WeCare | 0.44 | N/A | 0.19 | 0.44 |
| SEMP/KSBA | 0.30 | N/A | 0.19 | 0.30 |
| AMS Customer Service Offering | 0.00 | N/A | 0.00 | 0.00 |
| Total Portfolio | 0.67 | 2.96 | 0.33 | 1.01 |

The Companies assume the Program Development and Administration (PD&A) program is not a subject of this request, as it is necessary to all of the DSM-EE programs because it contains the generally applicable overhead costs associated with the entire DSM-EE portfolio. In addition, even when coupled solely with the Nonresidential Rebates program, the resultant TRC score is greater than one.

With regard to why the Companies believe the benefits of the Demand Conservation programs exceed their costs, please see the Testimony of David E. Huff at pages 16-20. Using the same kind of analysis the Companies employ to determine an economically appropriate reserve margin range, the testimony shows there is greater economic value to the Companies' customers in continuing the Demand Conservation programs than discontinuing them, at least within a certain band of customer participation levels. That is why the testimony further states that the Companies will continue to monitor customer participation levels to ensure the programs are still providing value exceeding the cost of continuing the programs.

In addition, about 20 years of program efforts have resulted in the deployment of over 200,000 load control devices and other equipment the Companies can call upon to reduce peak demand when needed. This valuable resource cannot be rebuilt quickly if abandoned. Therefore, in addition to the net economic benefit the programs provide (as explained above), the Companies believe it is in all customers' interests to continue the Demand Conservation programs in a maintenance mode as proposed, allowing customers to continue to receive benefits from the resources already prudently deployed.

Concerning the AMS Customer Service Offering, please see the Testimony of David E. Huff at pages 21-22. As Mr. Huff's testimony describes, this offering is performing successfully and cost effectively under the terms approved by the Commission just over three years ago. As of December 31, 2017, 7,390 customers had enrolled in the offering and 5,805 AMS meters were installed, with more continuing to be deployed to meet customer demand. Participating customers have demonstrated that they are better informed about their energy usage and a number have taken steps to reduce their usage as a result. In addition, the Companies have learned valuable lessons from the offering that have informed their proposal for full AMS deployment. If the Commission approves full AMS deployment, this program will end and be rolled into the larger AMS deployment. But in the meantime, the Companies believe continuing their program during their Proposed DSM-EE Program Plan is appropriate, again to ensure that participating customers continue to derive value from the AMS equipment deployed, including customers who have received such meters and also received third party assistance. The Companies believe that is a better approach and result than ending the offering, which would preclude anyone from deriving benefit from this Commission-approved investment.

Finally, regarding the School Energy Management Program ("SEMP"), please see the testimony of Gregory S. Lawson at pages 25-28. Related to EM&V spending, understanding the performance of programs in the portfolio is necessary even if the program is not cost-effective based on the TRC scores. Third party EM&V assures programs are achieving the desired performance and is critical when evaluating whether a program should continue, be modified, or eliminated. It is good use of customer dollars to evaluate program performance to assure proper analysis of program efficacy.

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Response to the Commission Staff's First Request for Information

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Question No. 5

Witness: Gregory S. Lawson

- Q-5. Refer to the Lawson Testimony, page 20, line 1.
- a. Explain the higher cost for the Large Non-residential Demand Conservation Program in 2022 as compared to the other years.
 - b. Explain why the program costs for the Residential and Small Non-residential Demand Conservations decrease in 2020.
 - c. Explain why the program and capital costs for the AMS Customer Service Offering decrease in 2020.
- A-5.
- a. The cost for the Large Nonresidential Demand Conservation Program is higher in 2022 compared to other years due to the projected timing of Evaluation Measurement & Verification (“EM&V”) costs. The Companies will use a third party to perform the evaluation on all programs during the 7-year filing timeframe.
 - b. The costs of the Residential and Small Nonresidential Demand Conservation Program decrease in 2020 due to fewer projected removals of switches from air conditioning units. The Companies project larger amounts of removals in 2019 and the cost of those removals is included.
 - c. The capital costs for the AMS Customer Service Offering are higher in 2019 compared to other years due to the projected costs of changing some AMS meters from 3G technology to 4G. The O&M costs for the AMS Customer Service Offering are incorrect as they included the O&M and Capital total dollars. All other program totals are correct. The original and revised tables are shown below.

GSL-Testimony page 9, line 1

| Program (\$000) | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Nonresidential Rebates | 2,835 | 2,856 | 2,774 | 2,543 | 2,543 | 2,550 | 2,557 |
| WeCare | 6,335 | 6,341 | 6,347 | 6,667 | 6,359 | 6,366 | 6,373 |
| Large Nonresidential Demand Conservation | 939 | 843 | 847 | 1,003 | 854 | 859 | 863 |
| Residential and Small Nonresidential Demand Conservation | 3,586 | 2,378 | 2,600 | 2,365 | 2,359 | 2,353 | 2,348 |
| AMS Customer Service Offering | 894 | 489 | 474 | 510 | 500 | 512 | 524 |
| School Energy Management Program | 725 | 725 | - | - | - | - | - |
| Program Development & Administration (PDA) | 724 | 733 | 742 | 751 | 760 | 770 | 780 |
| O&M Total | 15,609 | 14,373 | 14,115 | 14,169 | 13,703 | 13,703 | 13,703 |
| Large Nonresidential Demand Conservation | - | - | - | - | - | - | - |
| Residential and Small Nonresidential Demand Conservation | - | - | - | - | - | - | - |
| AMS Customer Service Offering | 500 | 61 | 63 | 65 | 67 | 69 | 71 |
| Capital Total | 500 | 61 | 63 | 65 | 67 | 69 | 71 |
| Grand Total | 16,039 | 14,365 | 13,783 | 13,839 | 13,375 | 13,408 | 13,444 |

Corrected GSL-Testimony page 9, line 1

| Program (\$000) | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Nonresidential Rebates | 2,835 | 2,856 | 2,774 | 2,543 | 2,543 | 2,550 | 2,557 |
| WeCare | 6,335 | 6,341 | 6,347 | 6,667 | 6,359 | 6,366 | 6,373 |
| Large Nonresidential Demand Conservation | 939 | 843 | 847 | 1,003 | 854 | 859 | 863 |
| Residential and Small Nonresidential Demand Conservation | 3,586 | 2,378 | 2,600 | 2,365 | 2,359 | 2,353 | 2,348 |
| AMS Customer Service Offering | 394 | 428 | 411 | 445 | 433 | 442 | 453 |
| School Energy Management Program | 725 | 725 | - | - | - | - | - |
| Program Development & Administration (PDA) | 724 | 733 | 742 | 751 | 760 | 770 | 780 |
| O&M Total | 15,539 | 14,303 | 13,720 | 13,774 | 13,308 | 13,339 | 13,372 |
| Large Nonresidential Demand Conservation | - | - | - | - | - | - | - |
| Residential and Small Nonresidential Demand Conservation | - | - | - | - | - | - | - |
| AMS Customer Service Offering | 500 | 61 | 63 | 65 | 67 | 69 | 71 |
| Capital Total | 500 | 61 | 63 | 65 | 67 | 69 | 71 |
| Grand Total | 16,039 | 14,365 | 13,783 | 13,839 | 13,375 | 13,408 | 13,444 |

**LOUISVILLE GAS AND ELECTRIC COMPANY
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**Response to the Commission Staff's First Request for Information
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Question No. 6

Witness: Gregory S. Lawson

- Q-6. Refer to the Lawson Testimony, page 23, lines 3-5. The Companies are proposing to maintain a static level of participation for the Large Non-residential Demand Conservation Program, yet expand the program to include the industrial rate classes. Confirm that an industrial customer cannot participate unless an existing customer decides to discontinue participation in the program.
- A-6. Confirmed.

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Question No. 7

Witness: Gregory S. Lawson

- Q-7. Refer to the Lawson Testimony, page 24, line 2. Provide an explanation of LEED.
- A-7. Leadership in Energy and Environmental Design, commonly referred to as LEED, is one of the most widely used green building rating systems. LEED was developed by the U.S. Green Building Council ("USGBC") and provides a suite of standards for the environmentally sustainable design, construction and operation of buildings and neighborhoods. As part of Case No. 2014-00003, LG&E and KU proposed LEED New Construction and LEED Major Renovation rebate offerings. The rebates provided are based on points awarded under the "LEED Energy & Atmosphere, Credit 1 – Optimize Energy Performance" category and the square footage of building.

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Question No. 8

Witness: Gregory S. Lawson

- Q-8. Refer to the Lawson Testimony, page 25, lines 18-20. Explain how the Companies will ensure there is no cross-subsidization between the residential and non-residential customers.
- A-8. The Companies can ensure this is the case because that is a key component in how the DSM Tariffs are calculated. For each program, a cost distribution by rate class is utilized which ensures only those rate classes eligible to participate are contributing to the program's funding, and are doing so only in the correct proportions. This distribution for each Company can be found in:

"Exhibit REL-1 KU Elec – Supporting Calcs" on page 4 of 14 titled "DSM Budget Allocation".

"Exhibit REL-2 LGE Elec – Supporting Calcs" on page 4 of 14 titled "DSM Budget Allocation".

"Exhibit REL-3 LGE Gas – Supporting Calcs" on page 4 of 14 titled "DSM Budget Allocation".

Also see attachments to Question No. 1 for updated supporting calculations.

**LOUISVILLE GAS AND ELECTRIC COMPANY
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**Response to the Commission Staff's First Request for Information
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Question No. 9

Witness: Gregory S. Lawson

- Q-9. Refer to the Lawson Testimony, page 28, line 19-22. Of the 7,125 meters installed to date, provide the number of meters installed for each company.
- A-9. Of the 7,125 customers enrolled as of November 30, 2017, 5,468 AMS meters were installed. As of December 31, 2017 there were 7,390 customers enrolled in the AMS Customer Service Offering, of which 4,191 are LG&E customers and 3,199 are KU customers. Additionally, 5,805 AMS meters were installed as of December 31, 2017, of which 3,167 were installed in the LG&E service territory and 2,638 were installed in the KU service territory.

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**Response to the Commission Staff's First Request for Information
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Case No. 2017-00441

Question No. 10

Witness: David E. Huff / Gregory S. Lawson

- Q-10. Refer to the Lawson Testimony, Exhibit GSL-1, page 40 of 182. Explain why the Administration Program Costs exceed other Program Costs for the Advanced Metering Systems Customer Service Offering.

- A-10. The Administration Program Costs exceed other Program Costs in the Advanced Metering Systems Customer Service Offering due to the allocation of the labor costs for two full-time equivalents. Of the six headcount for the other programs the labor costs are allocated to specific programs and PD&A.

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**Response to the Commission Staff's First Request for Information
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Question No. 11

Witness: David E. Huff

- Q-11. Refer to the Direct Testimony of David E. Huff ("Huff Testimony"), page 4, pages 9-10. Provide support for the \$400 million in avoided costs.
- A-11. The \$400 million is based on the estimated cost of building a new generation unit times the amount of megawatts saved through the Companies' DSM programs through November 2017: $450 \text{ MW} * \$900/\text{kW} = \405 million . Additionally the avoided energy from the Companies' DSM programs through November 2017 was 1,077 GWh. Conservatively using an average avoided energy cost of \$0.03/kWh for that period results in avoided energy cost savings of over \$30 million ($1,077 \text{ GWh} * \$0.03/\text{kWh} = \32.3 million).

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Question No. 12

Witness: Gregory S. Lawson

- Q-12. Refer to the Direct Testimony of Rick E. Lovekamp (“Lovekamp Testimony”), page 6, line 19, through page 7, line 6. Describe the process by which an industrial opt-out form is reviewed and the factors that are considered in order for an eligible industrial customer to be exempt from the Companies' DSM-EE surcharge.
- A-12. The opt-out form will be reviewed to check for accuracy on the eligible meters. The meters must be classified as industrial and also be on an energy intensive rate as defined in the Companies' tariff. By signing the form, the industrial customer certifies it has implemented cost-effective energy efficiency measures. If the form is found to be correctly submitted and signed by an authorized customer representative, then the eligible meters will not be charged the DSM-EE surcharge.

**LOUISVILLE GAS AND ELECTRIC COMPANY
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Question No. 13

Witness: Rick E. Lovekamp

Q-13. Refer to the Lovekamp Testimony, page 3, lines 16-21. Explain the purpose of a 50-basis-point incentive for the return-on-equity portion of the DSM Capital Cost Recovery component.

A-13. The Companies have proposed a 10.20% return on equity ("ROE") for capital invested in DSM-EE programs for two reasons. First, the current Commission-approved ROE for the DSM Capital Cost Recovery component is 10.50%.² The only ROE the Commission approved for the Companies in their rate cases immediately prior to the Commission's final order in the Companies' most recent rate cases was 10.00%, i.e., the DSM Capital Cost Recovery incentive was, practically speaking, 50 basis points.³ When the Commission approved a base-rate ROE for the Companies of 9.70% effective July 1, 2017, the DSM-EE incentive effectively increased to 80 basis points.⁴ The Companies believe it is appropriate to reduce that incentive and return to the 50 basis-point incentive level that existed prior to the Commission's most recent base-rate orders for the Companies.

Second and more generally, the incentive is rooted in KRS 278.285, which twice states that the Commission may find reasonable and approve a utility's DSM-EE proposals, which

² *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Review, Modification, and Continuation of Existing, and Addition of New, Demand-Side Management and Energy-Efficiency Programs*, Case No. 2014-00003, Order at 25 (Nov. 14, 2014) ("The Commission agrees with the Companies' requested continuation of the existing 10.5 percent Commission-approved ROE for equity capital invested in DSM/EE programs.").

³ *See In the Matter of: Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates*, Case No. 2014-00371, Order at 11 and Appendix A (June 30, 2015); *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates*, Case No. 2014-00372, Order at 12 and Appendix A (June 30, 2015). Also, the Commission accepted a 10.00% ROE for the purposes of the Solar Share Rider prior to reducing the ROE for the rider in the Companies' most recent base-rate cases. *In the Matter of: Electronic Joint Application of Kentucky Utilities Company and Louisville Gas and Electric Company for Approval of an Optional Solar Share Rider*, Case No. 2016-00274, Order at 11-12 (Nov. 4, 2016).

⁴ *See In the Matter of: Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity*, Case No. 2016-00370, Order at 15-18 (June 22, 2017); *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates and for Certificates of Public Convenience and Necessity*, Case No. 2016-00371, Order at 17-21 (June 22, 2017).

may include “incentives designed to provide positive financial rewards to a utility to encourage implementation of cost-effective demand-side management programs.”⁵ These provisions are clear that the Commission should not just permit ordinary cost recovery and ROEs for DSM-EE investments, but also provide positive financial incentives to encourage such investments. The Commission has consistently done so, permitting the Companies to earn an incentive on their DSM-EE-program non-capital expenditures.⁶ Therefore, the proposed 10.20% ROE for the Companies’ DSM-EE programs is consistent with KRS 278.285’s clear guidance and the Commission’s long-established practice concerning providing utilities a financial incentive to implement DSM-EE programs. Moreover, because the Companies are not currently seeking any incentive for operating and maintenance costs related to DSM-EE capital projects (i.e., direct load control and AMS), the ROE is the only incentive the Companies receive for such programs.

⁵ KRS 278.285(1)(c) - (2)(b).

⁶ See Kentucky Utilities Company, P.S.C. No. 18, Original Sheet Nos. 86.1 and 86.2; Louisville Gas and Electric Company P.S.C. Electric No. 11, Original Sheet Nos. 86.1 and 86.2; Louisville Gas and Electric Company P.S.C. Gas No. 11, Original Sheet Nos. 86.1 and 86.2.

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Question No. 14

Witness: Rick E. Lovekamp / Gregory S. Lawson

- Q-14. Refer to the Lovekamp Testimony, Exhibit REL-1, Supporting Calculations for DSM Cost Recovery Mechanism. Provide a copy of this exhibit in Excel Spreadsheet format with all formulas intact and unprotected, and with all columns and rows accessible.
- A-14. See the attachment being provided in Excel format. Also see attachments to Question No. 1 for updated Supporting Calculations.

The attachment is being provided in a separate file in Excel format.

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Question No. 15

Witness: Rick E. Lovekamp / Gregory S. Lawson

- Q-15. Refer to the Lovekamp Testimony, Exhibit REL-2, Supporting Calculations for DSM Cost Recovery Mechanism. Provide a copy of this exhibit in Excel Spreadsheet format with all formulas intact and unprotected, and with all columns and rows accessible.

- A-15. See the attachment being provided in Excel format. Also see attachments to Question No. 1 for updated Supporting Calculations.

The attachment is being provided in a separate file in Excel format.

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Question No. 16

Witness: Rick E. Lovekamp / Gregory S. Lawson

- Q-16. Refer to the Lovekamp Testimony, Exhibit REL-3, Supporting Calculations for DSM Cost Recovery Mechanism. Provide a copy of this exhibit in Excel Spreadsheet format with all formulas intact and unprotected, and with all columns and rows accessible.

- A-16. See the attachment being provided in Excel format. Also see attachments to Question No. 1 for updated Supporting Calculations.

The attachment is being provided in a separate file in Excel format.