COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS AND ELECTRIC COMPANY TO MODIFY THEIR GREEN ENERGY PROGRAMS	))))	CASE NO. 2009-00467

O R D E R

On November 30, 2009, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies") filed a joint application requesting Commission approval of certain modifications to their existing green energy programs. On January 8, 2010, the Companies provided additional information concerning their request in response to a Commission Staff data request. Specifically, the Companies propose the following modifications: (1) continuing the program after the Companies' current contract to purchase Renewable Energy Certificates ("RECs") expires on June 1, 2010; (2) approving the transfer of REC purchasing responsibility from the current vendor, 3Degrees Group, Inc., to the Companies; (3) approving proposed changes to the Small Green Energy ("SGE") and Large Green Energy ("LGE") Riders as described herein; and (4) changing the current semi-annual reporting periods to coincide with the general ledgers for each calendar year. The Companies will provide at least 60 days' notice of the changes before the changes take effect to allow customers time to consider any desired changes to their purchases under the SGE or LGE Riders.

BACKGROUND

The Companies' existing green power program was originally approved by the Commission in Case No. 2007-00067.[1] Green energy tariffs are available to any LG&E or KU customer who wants to voluntarily contribute funds for green energy generated from renewable sources or to help offset costs for the purchase or development of green power sources. The Companies do not actually purchase green energy but acquire RECs on behalf of participating customers.

The Companies selected 3 Phases Climate Solutions, LLC, now known as 3Degrees, Inc. ("3Degrees"), a nationally recognized green energy marketer, to procure the necessary RECs for the program and perform other administrative functions required in the purchase of the RECs. 3Degrees is compensated at an amount not to exceed $40,000 per year.

Under the Companies' existing green energy program, any residential ("RS") or small commercial ("GS") customer may contribute funds for green energy in any whole multiple of $5.00 each month, pursuant to the Small Green Energy Rider. Each $5.00 contribution allows the Companies to acquire 300 kWh of green energy in the form of RECs. All larger customers receiving service under special contract or any standard rate schedule other than RS or GS may contribute any whole multiple of $13.00 per month toward the purchase of renewable energy, representing the environmental attributes of 1,000 kWh of generation from a renewable resource pursuant to the Large Green Energy

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[1] Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Their Proposed Green Energy Riders (Ky. PSC May 31, 2007).

Rider. RS and GS customers may withdraw from the program at any time. Large commercial and industrial customers must commit for one year.

The cost structure for the larger customers is different from that of RS and GS customers due to the reduced promotional and educational efforts needed for larger customers, the longer commitment period of the larger customers, and larger blocks of power that will be purchased by the larger customers. The green power program is designed to be revenue-neutral, with all revenues received to be expended for REC purchases or to cover program costs.

Approximately 75 percent of every residential and small commercial customer's $5.00 contribution and 96 percent of every other customer's $13.00 contribution is used to purchase RECs. The remainder is applied to education, promotion, and research activities to increase enrollment in the program.

From June 1, 2009 through November 30, 2009, 899 LG&E customers purchased 4,048 RECs. During the same period, 547 KU customers purchased 3,186 RECs. Sources of the RECs are primarily in Kentucky and surrounding states. Due to increasing customer interest in the Companies' green energy programs, the Companies request authorization to continue the programs subsequent to expiration of the 3Degrees contract.

DISCUSSION

As previously stated, the Companies' contract with 3Degrees expires on June 1, 2010. The current SGE and LGE tariffs require the Companies to file applications for the extension of, and modifications to, the programs no later than six months prior to the expiration of the approved 3Degrees contract. The Companies, in anticipation of continuing their green energy programs, issued a Request For Proposals ("RFP") to green energy and REC procurement and support firms around the country. The Companies received only two proposals. After reviewing the proposals and studying the REC market, the Companies have concluded that procurement of RECs using in-house resources will best serve the participants and the purposes of the green energy program. Since the implementation of the Companies' green energy programs, the over-the-counter REC market has matured. The Companies' own commodity expertise and familiarity with renewable energy and REC markets have grown with the markets, making the in-house costs incurred to purchase RECs and to administer the programs negligible. The Companies further believe the knowledge gained by bringing the REC acquisition function in-house would prove even more valuable if a state or federal renewable portfolio standard becomes law in the future.

Due to fluctuating market prices for RECs, the Companies cannot continue to guarantee a fixed level of kWhs per $5.00 or $13.00 increments. Instead, the Companies propose to retain the contribution increments at $5.00 for SGE and $13.00 for LGE participants without tying the charges to specific levels of kWhs to be purchased. The contributions for SGE and LGE customers will be accumulated separately and will be used to purchase the greatest number of RECs available,[2] less the capped level of promotion costs previously outlined herein. Participants will be informed of the number of RECs purchased on their behalf through a quarterly update newsletter. The Companies have provided the newsletter to customers participating in the green energy programs for the past two quarters. Additionally, the Companies will post the number of RECs purchased under the programs on a monthly basis on the Companies' website.

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[2] To the extent possible, the Companies will continue to prioritize Kentucky-generated RECs, even if at a reasonable premium.

The current requirement for large customer participants to commit to make certain levels of contributions for one-year terms will be eliminated under the proposed tariffs. The Companies view this requirement as a possible barrier to participation by large customers.

The current tariffs for the SGE and LGE Riders require the Companies to file for renewal of the green power rate schedules six months prior to expiration of the three-year REC purchase contracts and allows adjustment of the block prices to reflect market conditions at that time. With the Commission's approval to move the purchasing function in-house, those contracts will not be necessary, nor will be the tariff requirement. The Companies propose to delete these two requirements from their SGE and LGE tariff sheets. If the Companies seek changes to either of the tariffs in the future, they will file an application at the appropriate time.

Currently, the Companies are required by the Commission to file semi-annual reports including, at a minimum, the following information: (1) the number of program participants by tariff classification; (2) the total number of RECs purchased; (3) the expenditures for education and promotion; (4) the expenditures for research; (5) the actual cost of the RECs; (6) the payments to 3Degrees; and (7) the amount of administrative costs. If the REC procurement function is brought in-house, the Companies will obviously no longer make payments to 3Degrees, making that reporting requirement moot. The Companies also propose a reporting period shift in the semi-annual reports on the status of their green energy programs from December through May and June through November to January through June and July through December, with each semi-annual report due by the last day of the month following the reporting period. This shift will match the reports to the Companies' general ledgers, thus avoiding the need to reconcile the reports to the general ledgers. The Companies propose to file the first report, covering the period December 1, 2009 through June 30, 2010, by July 31, 2010.

Based on the application and data responses and being otherwise sufficiently advised, the Commission finds that the Companies' proposed modifications to their green energy programs should be approved.

IT IS THEREFORE ORDERED that:

1. LG&E and KU are authorized to modify their green energy programs as set forth in their November 30, 2009 application effective June 1, 2010.

2. LG&E and KU shall continue to file semi-annual company-specific reports concerning the status of their green energy programs with the modifications discussed herein.

3. Any documents filed in the future pursuant to ordering paragraph 2 shall reference this case number and shall be retained in LG&E and KU's general correspondence files.

4. KU and LG&E shall file, within 20 days of the date of this Order, revised tariff sheets setting forth the modifications approved herein and showing their date of issue, their effective date, and that they were issued by authority of this Order.

By the Commission

ENTERED

FEB 22 2010

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

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