

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------------|---|------------|
| DUKE ENERGY KENTUCKY, INC.'S ANNUAL |) | CASE NO. |
| COST RECOVERY FILING FOR DEMAND SIDE |) | 2013-00395 |
| MANAGEMENT |) | |

ORDER

On November 15, 2013, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed a Demand-Side Management ("DSM") application ("Application"). Included in the Application is the Annual Status Report, Adjustment of the DSM Cost Recovery Mechanism, and Amended Tariff Sheets for Gas Rider DSMR and Electric Rider DSMR. According to the Application, Duke Kentucky met with the Residential Collaborative¹ and the Commercial and Industrial Collaborative,² whose members in attendance agreed with the Application. The Attorney General ("AG") reserved the right to express his opinion at a later date.³

Duke Kentucky was subject to two rounds of discovery. There were no intervenors.

¹ The Residential Collaborative members in attendance were: Jennifer Black Hans (Office of the Kentucky Attorney General, appearing by telephone); Staci O'Leary (People Working Cooperatively); Florence Tandy and Ashley Pate (Northern Kentucky Community Action Commission); Laura Pleiman (Boone County); Carl Melcher and Pete Nienaber (Northern Kentucky Legal Aid); Pam Proctor (Kentucky NEED Project); Lee Colten (Department of Energy Development and Independence); Jeremy Faust (Greater Cincinnati Energy Alliance); Andrew Issacs (KY Home Performance); and Tim Duff and Trisha Haemmerle (Duke Energy).

² The Commercial & Industrial Collaborative members in attendance were: Jennifer Black Hans (Office of the Kentucky Attorney General), Staci O'Leary (People Working Cooperatively), Pam Proctor (Kentucky NEED Project), Lee Colten (Department of Energy Development and Independence), Chris Baker (Kenton County Schools) and Tim Duff and Trisha Haemmerle (Duke Energy).

³ Application at 2.

DUKE KENTUCKY DSM PROGRAM PORTFOLIO

Duke Kentucky's DSM portfolio includes the following programs as approved in Case No. 2012-00085.⁴

1. Low Income Services Program – This program assists low-income customers with installation of Energy Efficiency (“EE”) measures in their homes to reduce energy usage. Weatherization and equipment-replacement assistance are available to income-qualified customers on Duke Kentucky's system in existing, individually metered residences, condominiums, and mobile homes. Funds are available for weatherization measures, and/or refrigerator replacement with an Energy Star appliance, and/or furnace repair/replacement. The measures eligible for funding will be determined by an energy audit of the residence, which is provided at no charge to the customer. Availability of this program will be coordinated through vendors or local agencies that administer weatherization programs. The vendor or agency must certify the household income level according to Duke Energy standards.

Payment Plus, another portion of the Low Income Services Program, provides EE and budget counseling to help customers understand how to control their energy usage and how to manage their household energy bills. Customers are also encouraged to participate in weatherization and equipment-replacement assistance to increase the EE in their homes. Bill assistance credits are provided to customers upon completion of each component of Payment Plus. Participants are not eligible for

⁴ Case No 2012-00085, Application of Duke Energy Kentucky, Inc. for an Energy Efficiency Cost Recovery Mechanism and for Approval of Additional Programs for Inclusion in Its Existing Portfolio (Ky. PSC Jun. 29, 2012).

payments under any other Duke Kentucky EE Programs for the same EE measures provided under this program.

2. Residential Energy Assessments Program – This program assists residential customers in assessing their energy usage and provides recommendations for more efficient use of energy in their homes. Administered by contractor Wisconsin Energy Conservation Corporation, Inc., the program will also help identify those customers who could benefit most by investing in new EE measures, undertaking more energy-efficient practices, and participating in Duke Kentucky programs. Duke Kentucky may require a minimum number of months of historical usage data before performing an analysis for customers.

Duke Kentucky will perform on-site assessments of owner-occupied residences and reserves the right to determine eligibility throughout the life of the program. Duke Kentucky will provide a detailed residential energy assessment, including EE recommendations.

Participating customers will be offered home EE measures such as an EE starter kit and/or compact fluorescent light bulbs. The home EE measure incentives may be delivered in a variety of ways including, but not limited to, in-home installation, direct mail, or online channels.

3. Energy Education Program for Schools Program – This program educates students about EE in their homes and schools through an EE curriculum. Operated under contract by National Energy Education Development (“NEED”), the program enables eligible students to complete a paper or online energy audit of their homes.

Each eligible student who completes a home energy audit will receive EE items for home use, such as a package of compact fluorescent light bulbs or an EE starter kit.

4. Residential Smart Saver Energy Efficient Residences Program – This program provides incentives to customers, builders, heating, ventilation and air-conditioning (“HVAC”) dealers, and weatherization contractors to promote and install high-efficiency air conditioners and heat pumps with electronically commutated fan motors (“ECM”), as well as attic insulation and air sealing, duct sealing, duct insulation, and HVAC tune ups. An additional measure new to this program is the high-efficiency heat pump water heaters.⁵ This program is promoted through trade ally outreach and direct communications to customers using numerous channels, including direct mail, community presentations and website promotions.

5. Residential Smart Saver Energy Efficient Products Program – This voluntary program encourages the installation of Energy Star or other high efficiency products in new or existing residences, providing incentives to offset a portion of the increased cost of higher-efficiency products. The types of equipment eligible for incentives may include, but are not limited to, the following: (1) high-efficiency lighting; (2) high-efficiency clothes washers; (3) high-efficiency refrigerators; and (4) high-efficiency dishwashers. An additional measure new to this program is the eligibility of high-efficiency pool pumps.⁶ Incentives are available only for Energy Star or other EE products that pass Duke Kentucky’s Utility Cost Test.

⁵ Case No. 2013-00313, Application of Duke Energy Kentucky, Inc. to Amend Its Demand Side Management Programs (Ky. PSC Dec. 19, 2013).

⁶ *Id.*

6. Smart Saver Prescriptive Program (“Prescriptive”) – This program encourages the installation of high-efficiency equipment in new and existing nonresidential establishments. The program will provide incentive payments to offset a portion of the higher cost of energy-efficient equipment. The program also encourages maintenance of existing equipment in order to reduce or maintain energy usage. The following types of equipment are eligible for incentives: (1) high-efficiency lighting; (2) high-efficiency HVAC installations; (3) high-efficiency motors, pumps, and variable frequency drives; (4) high-efficiency food-service installations; (5) high-efficiency process equipment installations, including compressed-air systems; (6) other high-efficiency installations as determined by Duke Kentucky on a case-by-case basis; and (7) maintenance to increase the efficiency of existing equipment.

Incentives offered are designed to offset a portion of the capital cost of moving to higher-efficiency equipment. The incentive amounts are known to the customers before they make their purchases or undertake their projects, so the customers can proceed with their project and submit documentation after installation.

7. Smart Saver Custom Program (“Custom”) – This program encourages the installation of high-efficiency equipment in new and existing nonresidential establishments. The program will provide incentive payments to offset a portion of the higher cost of energy-efficient installations that are not included in the Prescriptive program. A key difference between the Prescriptive program and the Custom program is that the Custom program requires the customer to submit an application before beginning the project.

The following types of equipment are eligible for incentives: (1) high-efficiency lighting; (2) high-efficiency HVAC installations; (3) high-efficiency motors, pumps, and variable-frequency drives; (4) high-efficiency food-service installations; (5) high-efficiency process equipment installations, including compressed-air systems; and (6) other high-efficiency installations as determined by Duke Kentucky on a case-by-case basis. The potential incentive amounts are based on the avoided energy and avoided capacity produced by the installed measure(s).

8. Smart Saver Energy Assessments Program – This program assists nonresidential customers in assessing their energy usage and provides recommendations for more efficient energy usage. The program will also help identify those customers who could benefit from other Duke Kentucky nonresidential EE programs.

Energy assessments are delivered in the following manner: (1) online; (2) by telephone interview; and (3) through an on-site audit. The online and telephone interview analyses are offered free of charge to the customer. The cost of the on-site audit and analysis is shared by Duke Kentucky and the customer. The cost of the on-site assessment can vary depending on the length of time an assessor spends at a customer's facility. The customer and Duke Kentucky each pay 50 percent of the cost, but the customer's cost can be further reduced upon payment by Duke Kentucky of incentives for equipment installed by adopting recommendations made in the audit under the Prescriptive or Custom programs.

9. Power Manager Program – This voluntary residential load control program is offered to individually metered, single-family residences. This program is available for the cycling control of electric central air-conditioning (cooling) systems.

10. PowerShare – This is the brand name of Duke Kentucky's voluntary Peak Load Management Program, which offers non-residential customers the opportunity to reduce their electric costs by managing their electric usage during peak-load periods. The customer and Duke Kentucky will enter into a service agreement under this rider, which will specify the terms and conditions under which the customer agrees to reduce usage.

11. Low Income Neighborhood – This program assists low-income customers in reducing energy costs through energy education and by installing or providing energy-conservation measures for each customer's residence. Under the program, participating customers will receive the following: (1) an energy assessment to identify EE opportunities in the customer's home; (2) one-on-one education on EE techniques and measures; and (3) a comprehensive package of energy-conservation measures installed or provided to the extent the measure is identified as an EE opportunity based on the results of the energy assessment. Energy conservation measures of up to \$210 may include low-cost EE starter items, such as air-infiltration reduction measures, energy-efficient lighting, water-conservation measures, HVAC filters, or other energy-saving devices.

12. My Home Energy Report – This voluntary program uses household electric usage data for similar residences in the same geographic area to help customers to better manage and reduce energy usage. These normative comparisons

are intended to induce an energy-consumption behavior change. The program will assist residential customers in assessing their energy usage and provide recommendations for more efficient use of energy in their homes. The program will help identify those customers who could benefit most from investing in new EE measures, undertaking more energy-efficient practices and participating in Duke Kentucky programs. Customers will receive periodic comparative usage data reports via direct mail or online channels. Delivery may be interrupted during the off-peak energy usage months in the fall and spring. Duke Kentucky may require a minimum number of months of historical usage data before allowing participation.

13. Appliance Recycling Program (“ARP”) – The ARP is designed to prevent the continued use of inefficient, working refrigerators and freezers by taking the units out of homes and recycling them in an environmentally friendly manner, with only five percent of the materials going to a landfill. Qualifying units include residential-style refrigerators and freezers ranging from 10-30 cubic feet currently in Duke Kentucky customer’s homes. These qualifying units will be removed at no cost to the customer by a Duke Kentucky-approved third-party vendor. The removed units will be dismantled with approximately 95 percent of materials being recycled. Duke Kentucky residential customers that elect to participate will be paid a cash incentive of up to \$30 dollars per unit, for a maximum of two units per year.

COST-EFFECTIVENESS

The following table shows the results of the cost-effectiveness tests⁷ provided by Duke Kentucky:

⁷ Application, Appendix A, filed Nov. 15, 2013.

| <u>DSM Portfolio Programs</u> | <u>Utility Test</u> | <u>TRC Test</u> | <u>RIM Test</u> | <u>Participant Test</u> |
|--|---------------------|-----------------|-----------------|-------------------------|
| Appliance Recycling Program | 4.57 | 4.97 | 1.45 | N/A |
| Energy Efficiency Education Program for Schools | 0.28 | 0.32 | 0.24 | N/A |
| Low Income Neighborhood | 0.94 | 1.04 | 0.65 | N/A |
| Low Income Services | 0.60 | 0.73 | 0.46 | N/A |
| My Home Energy Report | 1.26 | 1.26 | 0.74 | N/A |
| Residential Energy Assessments | 1.23 | 1.34 | 0.90 | N/A |
| Residential Smart \$aver® | 5.79 | 14.45 | 1.31 | 26.89 |
| Power Manager | 5.22 | 6.25 | 5.22 | N/A |
| Smart \$aver® Custom | 5.92 | 2.20 | 1.36 | 2.53 |
| Smart \$aver® Prescriptive-Energy Star Food Service Products | 1.12 | 0.87 | 0.66 | 3.13 |
| Smart \$aver® Prescriptive-HVAC | 3.10 | 1.05 | 1.29 | 1.01 |
| Smart \$aver® Prescriptive-Lighting | 8.03 | 2.51 | 1.69 | 2.22 |
| Smart \$aver® Prescriptive-Motors/Pumps/VFD | 8.04 | 4.15 | 1.64 | 4.04 |
| Smart \$aver® Prescriptive-Process Equipment | 4.87 | 5.09 | 1.61 | 5.88 |
| Power Share® | 4.89 | 22.26 | 4.89 | N/A |

COSTS⁸

Duke Kentucky's DSM revenue requirement, including program costs, lost revenues, and financial incentives, is \$10.6 million. The total DSM revenue requirement, including under- and over-recovery from the prior period, is \$10.7 million, of which \$7.3 million is allocated to electric operations and \$3.4 million is allocated to gas operations. The \$7.3 million allocated to electric operations includes a \$1.7 million

⁸ Application, Appendix B, filed Nov. 15, 2013, which includes the calculation of the revised DSM surcharge factor.

over-recovery from the prior period, \$9.0 million of expected DSM program costs, and \$145,522 of customer meter charge for Home Energy Assistance (“HEA”). The \$3.4 million allocated to gas operations includes \$1.8 million over-recovery from the prior period, \$1.7 million of expected DSM program costs, and \$105,035 of customer meter charge for HEA.

FINDINGS

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

1. Duke Kentucky has adequately kept the Commission informed of the progress and status of its DSM programs by timely filing summary status reports on its programs.

2. Duke Kentucky's revised DSM surcharge factors, attached as the Appendix to this Order, are based on its expected level of additional DSM program costs and are reasonable and should be approved.

3. Duke Kentucky should continue not to include DSM or EE related costs in base rates.

IT IS THEREFORE ORDERED that:

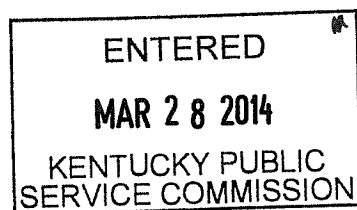
1. Duke Kentucky's proposed DSM programs and associated costs are approved as of the date of this Order.

2. Duke Kentucky shall continue not to include DSM or EE related costs in base rates.

3. Within 20 days of the date of this Order, Duke Kentucky shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff

sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00395 DATED **MAR 28 2014**

The following rates and charges are prescribed for the customers in the area served by Duke Energy Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Duke Energy Kentucky, Inc. – Electric and Gas Customers

| <u>Rate Schedule Riders</u> | <u>DSM Cost Recovery Rider (DSMR)</u> |
|--|---|
| <u>Electric Rider DSM</u> | |
| Residential Rate RS | \$0.003062 per kWh |
| Distribution Level Rates Part A DS, DP, DT, GS-FL, EH & SP | \$0.000280 per kWh |
| Transmission Level Rates & Distribution Level Rates Part B TT | \$0.000848 per kWh |
| Distribution Level Rates Total DS, DP, DT, GS-FL, EH & SP | \$0.001128 per kWh |
| <u>Gas Rider DSM</u> | |
| Residential Rate RS | \$0.054918 per Ccf |

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