COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY TO AMEND ITS DEMAND-SIDE MANAGEMENT PROGRAM AND FOR AUTHORITY TO IMPLEMENT A TARIFF TO RECOVER COSTS AND NET LOST REVENUES, AND TO RECEIVE INCENTIVES ASSOCIATED WITH THE IMPLEMENTATION OF THE PROGRAMS	)))))))	CASE NO. 2012-00367

ORDER

On August 15, 2012, Kentucky Power Company ("Kentucky Power")[1] filed an application seeking, among other things, approval of revised electric tariffs to recover costs associated with its demand-side management ("DSM") programs, including net lost revenues and program-related incentives for the residential and commercial DSM factors. Kentucky Power sought approval of evaluation reports for the following five programs: (1) Commercial Incentive Program; (2) Residential and Small Commercial Heating Ventilation and Air Conditioning ("HVAC") Diagnostic and Tune-Up Program; (3) Residential and Small Commercial Load Management Pilot Program ("Pilot RCLM Program"); (4) Residential Efficient Products Program; and (5) Commercial High Efficiency Heat Pump/Air Conditioner Program. Kentucky Power proposed a three-year extension, beginning 2013, for the following four programs: (1) Residential Efficient

[1] Per the application, Kentucky Power's proposed revision of the DSM Adjustment Clause factor for residential customers is supported by its DSM Collaborative with the exception of the representatives of Northeast Kentucky Community Action ("NKCA") and Big Sandy Area Development District ("BSADD"). The representatives of the BSADD and NKCA objected to the increased rates for the residential customers required under the revised tariffs, but otherwise supported Kentucky Power's recommendations (Application Letter, pages 3-4).

Products; (2) Residential and Small Commercial HVAC Diagnostic and Tune-Up; (3) Commercial High Efficiency Heat Pump/Air Conditioner; and (4) Commercial Incentive Program. Kentucky Power requested a one-year extension of the Pilot RCLM Program. Kentucky Power also requested a one-year extension, beginning 2013, of Electric No. 9, Tariff R.C.L.M. (Pilot Residential and Small Commercial Load Management), 1st Revised Sheet Nos. 23-1 and 23-2. Finally, Kentucky Power proposed that the residential and commercial DSM electric tariffs become effective September 27, 2012. The proposed residential and commercial DSM electric tariffs are the following:

Residential	$0.002036/kWh
Commercial	$0.000895/kWh

Pursuant to the Commission Order dated September 5, 2012, a procedural order was established and Kentucky Power's proposed effective date of its DSM tariffs was suspended for a five-month period, up to an including February 26, 2013. The Attorney General ("AG") sought and was granted intervention, but did not object. Kentucky Power was subject to two requests for information by the AG and three requests for information from Commission Staff.

Kentucky Power requested and was granted an Informal Conference ("IC") on January 23, 2013. The AG also attended the IC. Kentucky Power stated at the IC that it had been unable to execute an agreement with the implementation contractor to extend its Pilot RCLM Program.

In light of its difficulty with the implementation contractor, Kentucky Power proposed the following at the IC:

1. Kentucky Power would file a formal motion in which it would withdraw the request to extend for one-year the Pilot Residential and Commercial Load Management Program ("Pilot RCLM Program").

2. Kentucky Power would also request in the same motion that the Commission allow the current residential and commercial Demand-Side Management ("DSM") factors to remain in effect. The current DSM factors are:

Residential	$0.000826/kWh
Commercial	$0.000538/kWh

3. Kentucky Power would further request in the motion an extension of time until April 15, 2013 in which to submit its next six-month DSM filing, which had been scheduled to be filed on February 15, 2013.

4. Kentucky Power would note its intention to seek permission to transition its semi-annual DSM filing to an annual filing as part of its next DSM filing.

Kentucky Power filed a Corrected Motion to Amend Application and the AG filed a Response to Kentucky Power's Corrected Motion to Amend Application. Discovery is complete and the matter now stands submitted to the Commission for a decision upon the record.

CORRECTION MOTION TO AMEND APPLICATION

On January 28, 2013, Kentucky Power filed a Corrected Motion to Amend Application with regard to requested extension of its Pilot RCLM Program. In its application, Kentucky Power requested that the Pilot RCLM Program be extended for an additional year through December 31, 2013 to enable "the Company to evaluate the program using more participants through a full winter and summer season."[2]

Additional details on the Pilot RCLM Program, as presented in the Corrected Motion to Amend, are as follows: Kentucky Power contracted with Consert, Inc. ("Consert") to provide multiple services in connection with the Pilot RCLM Program, including installation of load-control and energy-management devices, the provision of customer service, the operation of the program, and the delivery of billing data to Kentucky Power. Kentucky Power's contract with Consert for installation and load management event services expired December 31, 2012.[3] As a result, in October 2012, Kentucky Power began negotiations with Consert to extend the Consert contract for an additional year to coincide with the requested program extension. The offer was made by delivering to Consert a signed copy of the extension agreement on December 11, 2012.[4] Because the purpose of extending the Pilot RCLM Program was to permit Kentucky to evaluate the program using more participants during complete winter and summer seasons, it was critical that new customer installation and load-management event services[5] continue with no or minimal interruption in January 2013. In addition, it was not practicable to substitute another vendor for Consert upon expiration of Consert's initial contract.[6]

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[2] App., p. 2.

[3] Corrected Motion to Amend Application, ¶ 2, filed Jan. 28, 2013.

[4] *Id.*, ¶ 3.

[5] *Id.*, footnote 2. The current agreement for removal of equipment, and certain other services, extends into 2013.

[6] *Id.*, ¶ 4.

Consert stopped providing installation and load management event services under the initial contract effective December 31, 2012. Despite repeated requests by Kentucky Power that Consert sign the written December 2012 offer to extend the contract, Consert has declined to do so. Kentucky Power was informed by Consert on January 9, 2013 that in light of a pending business transaction, Consert would not sign the contract extension until after the transaction closed. The Consert representative further informed Kentucky Power that, while it was anticipated that the transaction would close in early February 2013, the representative was unable to guarantee a date. Kentucky Power was also informed the previously negotiated agreement would be subject to review by the "new legal team."[7]

Even if the contract extension were to be signed in February 2013, Consert's delay in providing services under the extension meant it would no longer be possible for Kentucky Power to obtain Pilot RCLM Program data from an increased number of participants during a complete winter season. In addition, a delay would have created uncertainty concerning completion of the load impact analysis recommended in the program evaluation filed with this proceeding. As a result, Kentucky Power has concluded that the Pilot RCLM Program should not be extended through December 31, 2013 because the program would be unable to meet the objectives for the requested extension.[8]

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[7] *Id.*, ¶ 5.

[8] *Id.*, ¶ 8.

On January 22, 2013, Kentucky Power revoked its offer to extend the Consert contract an additional year.[9] Kentucky Power believes it is not practicable to operate the Pilot RCLM Program without Consert[10] and Kentucky Power requests that the program be terminated.

Kentucky Power requested that the Commission authorize it to continue to make the DSM incentive payments to currently participating customers for service rendered until the earlier of: the date the installed Pilot RCLM Program load control equipment is removed or the customer notifies Kentucky Power that the customer does not want the equipment removed; or February 28, 2013 (with credits to appear on the bill received in March 2013), the end of the winter season under the existing Tariff D.S.M.C.[11]

Kentucky Power also requested that it be granted an extension from February 15, 2013 up to and including April 15, 2013 in which to file its next Demand-Side Management Status Report. The extension will permit Kentucky Power to obtain calendar year 2012 data in a more orderly fashion, to meet with its Collaborative prior to the next report, and to review fully its existing and any proposed D.S.M. programs.[12]

Finally, Kentucky Power requested that the current DSM residential and commercial tariffs remain in effect until the Commission's Order in Kentucky Power's next DSM filing.[13] The current DSM factors are:

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[9] *Id.*

[10] *Id.*, ¶ 3.

[11] *Id.*, ¶ 7.b.

[12] *Id.*, ¶ 7.c.

[13] *Id.*, ¶ 7.a.

Residential	$0.000826/kWh
Commercial	$0.000538/kWh

Kentucky Power also anticipates requesting an Order providing for the annual review of Kentucky Power's DSM programs in lieu of the current semi-annual review.[14]

PILOT RESIDENTIAL AND SMALL COMMERCIAL LOAD MANAGEMENT TARIFF

Kentucky Power proposed the Electric No. 9, Tariff R.C.L.M. (Pilot Residential and Small Commercial Load Management) 1st Revised Sheet Nos. 23-1 and 23-2, be revised and be extended for one additional year. Kentucky Power requests the availability be limited to 200 residential customers (down from the current 1,000-residential customer limit) and 25 small-commercial customers (down from the current 100 small-commercial-customer limit) applying for service under this tariff or until 450 load control devices (down from the current 2,200 load-control-device limit) have been installed. Kentucky Power states the revised targets in the tariff are based on minimum levels necessary to complete the cost-benefit and participation-impact program evaluation.[15] Due to the aforementioned inability to reach an agreement with its implementation contractor, Kentucky Power is now withdrawing its request to extend the Pilot RCLM Program beyond the December 31, 2012 termination date.[16]

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[14] *Id.*, ¶ 9.

[15] Response to Commission Staff's First Request for Information, Item 2.a., filed Oct. 11, 2012.

[16] Corrected Motion to Amend Application, ¶ 9.a., filed Jan. 28, 2013.

AG'S RESPONSE TO KENTUCKY POWER'S MOTION TO AMEND APPLICATION

The AG filed a response to Kentucky Power's corrected motion to amend application.[17] The AG had no objections to the requests Kentucky Power made in its motion, but the AG did make comments expressing his concern regarding programs not currently cost-effective.

The AG's comments are the following:

> The Attorney General expresses concern that two (2) of the five (5) programs for which KPCo originally sought an extension were evaluated to be not currently cost-effective - (1) the Pilot RCLM Program, which has been withdrawn by amendment and (2) the Commercial Incentive Program, which has fallen short of the 88 projects per year to achieve cost-effectiveness. The other programs, though deemed cost-effective, met with a qualified degree of resistance from some Collaborative members, since they would result in a significant increase to the residential and commercial surcharges.
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> Pursuant to KRS 278.285(1) the factors to be considered in determining the reasonableness of a DSM plan, and by analogy the reasonableness of continuing such a program, include whether the plan is cost-effective (subsection (l)(c)); the extent of collaboration and the amount of stakeholder support expressed for the plan, though unanimity is not required (subsection (l)(f));and the extent to which the programs offered are "available, affordable, and useful to all customers" (subsection (l)(g)). In its preliminary review of the Pilot RCLM Program, for example, the Attorney General found the program lacking under all three (3) of the foregoing factors. While the Attorney General supports efforts by utilities to manage load among other DSM and energy efficiency efforts, the KPCo RCLM pilot program has yet to demonstrate cost-effectiveness. Additionally, as detailed by the program evaluation, there were initial technological barriers that diminished the availability and usefulness of the RCLM program.

[17] Attorney General's Response to Kentucky Power's Corrected Motion to Amend Application & Final Comments Thereon, filed Jan. 31, 2013.

> Regarding the remainder of the current application, the Attorney General defers to the Commission regarding whether to approve the continuance of other programs not deemed cost-effective at this time. However, in light of an anticipated increase in the DSM surcharge approaching 150% more than currently paid by residential customers and 70% more than currently paid by commercial customers, KPCo should be prepared to affirmatively and definitively demonstrate the value of the energy savings resulting from, or anticipated to result from, ratepayer investment.

DSM PROGRAMS

Kentucky Power's current DSM programs are as follows:

1. Targeted Energy Efficiency Program – This is a residential weatherization program that is promoted solely through the Community Action Agencies and is designed to improve energy efficiency ("EE") for low-income customers through energy audits coupled with installation of various energy conservation measures for both all-electric and non-all-electric customers. Measures include an energy audit; inspection of heating equipment; weather-stripping; caulking of windows and exterior doors; blower door analysis with air and duct sealing; water-heater blanket, pipe insulation, and thermostat setback; attic, floor, and wall insulation; compact fluorescent light ("CFL") bulbs; and structural repairs that have EE value. This program was approved to continue through 2014 in Case No. 2011-00300.[18]

2. Mobile Home Heat Pump Program – This program is designed to promote, through HVAC contractors, a more efficient HVAC system for mobile homes. Incentives are paid to both the HVAC dealers and the customers who purchase high-efficiency heat pumps to replace their existing electric furnaces. The customer incentive is $400

[18] Case No. 2011-00300, Application of Kentucky Power Company for Collaborative Demand-Side Management Programs and for Authority to Implement a Tariff to Recover Costs and Net Lost Revenues and Receive Incentives Associated with the Implementation of the Kentucky Power Company Collaborative Demand-Side Management Programs (Ky. PSC Jan. 23, 2012).

and the dealer incentive is $50. This program was approved to continue through 2014 in Case No. 2011-00300.[19]

3. Mobile Home New Construction Program – This program is designed to lower electric usage in new mobile homes by paying incentives to mobile home dealerships and the customers who purchase new mobile homes with high-efficiency heat pumps and Zone 3 insulation packages. The customer incentive is $500 and the dealer incentive is $50. This program was approved to continue through 2014 in Case No. 2011-00300.[20]

4. Modified Energy Fitness Program – This program is designed to promote conservation and efficient use of electricity by improving the energy fitness of electrically heated residences with a minimum average monthly usage of at least 1,000 kWh. The measures include energy audits, blower door testing, caulking and weather-stripping, three faucet aerators, two low-flow showerheads, one CFL, hot-water pipe insulation, duct sealing, a water-heater wrap, a door sweep, water-heater temperature turn-down, and programmable thermostat. An audit report is also provided recommending additional actions the homeowner could take. There is no income level requirement with this program. This program was approved to continue through 2013 in Case No. 2011-00300.[21]

5. High Efficiency Heat Pump Program – This program is designed to reduce residential electric energy consumption by upgrading less efficient electric heating and

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[19] *Id.*

[20] *Id.*

[21] *Id.*

cooling systems with high-efficiency heat pumps. The customer incentive is $400 and the dealer incentive is $50. This program was approved to continue through 2014 in Case No. 2011-00300.[22]

6. Energy Education for Students Program – This program is designed as both an energy-education program and a program to promote energy-efficient lighting in residential homes. Kentucky Power works with the Kentucky National Energy Education Development ("NEED") project to provide energy-education materials to participating middle schools. Each seventh-grade student at the participating schools receives a package of four CFL bulbs. Case No. 2012-00051[23] approved a new three-year contract with NEED to run from 2012 through 2014. This program was approved to continue through 2014 in Case No. 2011-00300.[24]

7. Community Outreach CFL Program – This program is designed to promote the conservation and efficient use of electricity by encouraging the use of energy efficient Energy Star CFL bulbs in place of incandescent light bulbs in residential homes. This program was approved to continue through 2014 in Case No. 2011-00300.[25]

8. Residential Efficient Products Program – This program provides incentives and marketing through retailers to build market share and promote usage of Energy

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[22] *Id.*

[23] Case No. 2012-00051, Joint Application Pursuant to 1994 House Bill No. 501 for the Approval of Kentucky Power Company Collaborative Demand-Side Management Programs and for Authority to Implement a Tariff to Recover Costs, Net Lost Revenues, and Receive Incentives Associated with the Implementation of the Kentucky Power Company Collaborative Demand-Side Management Programs (Ky. PSC May 30, 2012).

[24] Case No. 2011-00300, Kentucky Power Company (Ky. PSC Jan. 23, 2012).

[25] *Id.*

Star lighting products to reduce the amount of energy consumed by home lighting. This program was approved to continue through 2012 in Case No. 2010-00095.[26]

9. Residential and Commercial Heating, Ventilation, and Air Conditioning Diagnostic and Tune-Up Program – This program works with participating licensed HVAC dealers and targets residential and small-commercial customers with HVAC system performance problems. The objective of this program is to reduce energy usage by conducting a diagnostic performance check on unitary air conditioning and heat pump units, air-restricted indoor and outdoor coils, and over/under refrigerant charges. The customer and dealer incentives are: residential $50; commercial $75; and dealer $50. This program was approved to continue through 2012 in Case No. 2010-00095.[27]

10. Residential and Small Commercial Load Management Program – The purpose of this program is to reduce peak demand through the installation of load-control devices on residential and commercial central air conditioners, heat pumps and/or electric water heaters. This is accomplished by reducing the duty cycle of air conditioning equipment and turning off water heaters during peak periods. The customer incentives are:

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[26] Case No. 2010-00095, Joint Application Pursuant to 1994 House Bill No. 501 for the Approval of Kentucky Power Company Collaborative Demand-Side Management Programs, and for Authority to Recover Costs, Net Lost Revenues and Receive Incentives Associated with the Implementation of One New Residential, One Combined Residential/Commercial, and One Commercial Demand-Side Management Program Beginning January 1, 2010 (Ky. PSC Aug. 10, 2010).

[27] *Id.*

	Customer	
	Residential	Commercial
Air Conditioner or Heat Pump per unit 1/	$5	$5
Electric Water Heater per unit 2/	$1	$1

1/ Months of June, July, August, and September
2/ Months of June, July, August, September, October, November, December, January, and February

This program was approved to continue through 2012 in Case No. 2010-00198.[28] Kentucky Power is requesting to withdraw the extension of this program through December 31, 2013.[29]

11. Commercial High Efficiency Heat Pump/Air Conditioner Program – This program offers a financial incentive to small-commercial customers (less than 100 kW demand) who purchase a new qualifying central air conditioner or heat pump, up to a five-ton unit, with a Consortium for Energy Efficiency Tier 1 rating and who comply with pertinent eligibility requirements of this program. In addition, the program offers financial incentives to dealers who sell these high-efficiency units. This program targets the existing retrofit market only. The customer and dealer incentives are:

[28] Case No. 2010-00198, Joint Application Pursuant to 1994 House Bill No. 501 for the Approval of Kentucky Power Company Collaborative Demand-Side Management Programs and for Authority to Recover Costs, Net Lost Revenues and Receive Incentives Associated with the Implementation of One New Combined Residential/ Commercial and One Commercial Demand-Side Management Program Beginning August 2, 2010 (Ky. PSC Oct. 15, 2010).

[29] Per Request of Kentucky Power in the January 23, 2013 Informal Conference.

	Customer		
	Air Conditioner	Heat Pump	Dealer
36,000 or fewer Btu/hr	$250	$300	$50
36,000 to 65,000 Btu/hr	$400	$450	$50

This program was approved to continue through 2012 in Case No. 2010-00095.[30]

12. Commercial Incentive Program – This program is designed to address cost-effective electricity-saving measures that are not addressed or offered through other Kentucky Power programs. All commercial customers are eligible to participate and all projects must be pre-approved by Kentucky Power prior to purchase and installation of any equipment or materials. Eligible measures include lighting, HVAC, and motor and drive measures. Incentives for qualifying prescriptive measures will vary and will be provided to participating customers at the lesser of (1) a calculated incentive level, or (2) up to 50 percent of the incremental equipment cost of qualifying energy-efficient products (i.e., those costs above federal and/or state efficiency levels). This program was approved to continue through 2012 in Case No. 2010-00198.[31]

PROGRAM EVALUATION REPORTS

Kentucky Power retained Applied Energy Group, Inc. ("AEG") to conduct a process, market, and impact evaluation of the five programs evaluated. The evaluation reports included findings and recommendations for each program. With the exception

[30] Case No. 2010-00095, Kentucky Power Company (Ky. PSC Aug. 10, 2010).

[31] Case No. 2010-00198, Kentucky Power Company (Ky. PSC Oct. 15, 2010).

of the Pilot RCLM Program evaluation report, each evaluation included the cost-effectiveness test for 2011 provided by AEG. The results are as follows:

Program	Utility Cost Test	Ratepayer Impact Measure Test	Participant Test	Total Resource Cost Test
Commercial Incentive	0.60	0.30	15.52	0.63
Residential HVAC Diagnostic and Tune-Up	0.88	0.35	2.44	0.71
Small Commercial HVAC Diagnostic and Tune-Up	0.75	0.32	3.57	0.75
Residential Efficient Products	0.45	4.22	6.02	2.39
Small Commercial Heat Pump/Air Conditioner Incentive	0.37	0.75	3.01	0.76

With the exception of the Residential Efficient Products program, all the programs' Total Resource Cost ("TRC") Test results were less than 1.0, meaning the programs are not cost-effective. However, Kentucky Power's 2011 overall or bundled portfolio cost-effectiveness test results are as follows:

Program	Utility Cost Test	Ratepayer Impact Measure Test	Participant Test	Total Resource Cost Test
Kentucky Power Portfolio Cost-Effectiveness Results	2.13	0.44	5.13	1.57

Kentucky Power's overall TRC is 1.57, meaning the bundled portfolio is cost-effective.

AEG also provided projected cost-effectiveness test results for certain programs where either planned participation was achieved for 2011 or recommended measures had been put in place.

Program	Utility Cost Test	Ratepayer Impact Measure Test	Participant Test	Total Resource Cost Test
Commercial Incentive 1/	0.86	0.36	6.61	1.09
Residential - HVAC Diagnostic and Tune-Up - Heat Pump 2/	1.09	0.38	2.82	0.88
Residential - HVAC Diagnostic and Tune-Up - Air Conditioner 2/	0.23	0.16	1.24	0.19
Small Commercial - HVAC Diagnostic and Tune-Up - Heat Pump 2/	0.96	0.37	4.22	0.96
Small Commercial - HVAC Diagnostic and Tune-Up - Air Conditioner 2/	0.25	0.16	2.07	0.25
Small Commercial Heat Pump/Air Conditioner Incentive 1/	0.47	1.34	2.56	1.18

1/ Cost-Effectiveness Results if Planned Participation Achieved - 2011
2/ Measure Cost-Effectiveness Results

AEG also provided results from another projected cost-effectiveness test for certain programs in which either the program's administration costs are reduced or the contractor's incentive is reduced and the incentive for central air conditioning is removed.

Program	Utility Cost Test	Ratepayer Impact Measure Test	Participant Test	Total Resource Cost Test
Commercial Incentive 1/	0.99	0.38	6.61	1.32
Residential HVAC Diagnostic and Tune-Up 2/	1.32	0.41	2.82	1.03
Small Commercial HVAC Diagnostic and Tune-Up 2/	1.10	0.38	4.22	1.10

1/ Cost-Effectiveness Results if Program Administration Costs Reduced - 2011
2/ Cost Effectiveness Results if Contractor Incentive Reduced & Central Air Conditioner Removed

The AEG recommendations include the following:

- For the Commercial Incentive Program – (1) that KEMA,[32] the implementation contractor, increase the local staff by at least one employee; and (2) that Kentucky Power consider increasing incentives to 60-70 percent of the installed costs from the current 50 percent of incremental material costs.

- For the Residential and Small Commercial HVAC Diagnostic and Tune-Up Program – (1) that Kentucky power hire an implementation contractor;[33] (2) to reduce the participating HVAC dealer incentives to $25 (from the current $50 incentive), remove central air conditioner tune-ups from the program offering, and reduce the customer incentive to $30 (from the current $50 incentive); (3) to modify the program to reduce free ridership by extending eligibility for a rebate from the current three years to every five years to correspond with the measure-life of the services, and to require the customer to submit the rebate application; and (4) that Kentucky Power and the implementation contractor actively engage participating HVAC dealers and remove non-participating HVAC dealers from the participating HVAC dealer list if they have not actively participated in a Kentucky Power HVAC program within the most recent 12 months.

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[32] DNV KEMA Energy & Sustainability. KEMA is a global energy consultancy, technology consulting and technology services company headquartered in Arnhem, Netherlands.

[33] Per the application, Kentucky Power Company HVAC Diagnostic and Tune-Up Program Evaluation, AEG recommends that Kentucky Power hire an implementation contractor to implement Kentucky Power's residential and small commercial HVAC programs, including, but not limited to, the Residential and Small Commercial HVAC Diagnostic and Tune-up Program, the Small Commercial Heat Pump/Air Conditioner Incentive Program, the Residential High Efficiency Heat Pump Program, Mobile Home High Efficiency Heat Pump, and Mobile Home New Construction.

- For the Residential Efficient Products Program – (1) that Kentucky Power work with Applied Proactive Technologies, Inc. ("APT")[34] to engage independent retailers and reduce barriers to entry into the program; (2) to remove incentives for light emitting diode ("LED") holiday light, LED nightlights, and Energy Star ceiling fans; (3) to examine the cost-effectiveness of incentivizing LED bulbs, since this market is maturing and costs are decreasing; (4) to work with APT as to incentivizing other residential products, such as Energy Star refrigerators; and (5) to continue current marketing and promotional activities, particularly the APT field representative in-store promotions and staff training.

- For the Small Commercial Heat Pump/Air Conditioner Incentive Program – (1) that Kentucky Power hire an implementation contractor to implement Kentucky Power's residential and small commercial HVAC programs, including, but not limited to, the Small Commercial Heat Pump/Air Conditioner Incentive Program, the Residential and Small Commercial HVAC Diagnostic and Tune-up Program, the Residential High Efficiency Heat Pump Program, Mobile Home High Efficiency Heat Pump, and Mobile Home New Construction; (2) to clarify the program requirements regarding whether minimum HVAC systems must meet both the seasonal EE ratio and/or EE ratio, encourage Kentucky Power and the implementation contractor to consider modifying those program requirements, and see that the website be updated to reflect those requirements; and (3) to actively engage participating HVAC dealers and remove non-participating HVAC dealers from the participating HVAC dealer list if they have not actively participated in a HVAC program within the most recent 12 months.

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[34] Applied Proactive Technologies, Inc. is Kentucky Power's lighting implementation contractor. APT is headquartered in Springfield, MA.

It is Kentucky Power's belief that if it were to implement AEG's recommendations that participation would increase and the programs would become cost-effective. In response to a Commission Staff's request for information, Kentucky Power stated that "[t]he Company will use the recommendations from the program evaluations, as described in the responses to various data requests in this case, to administer the programs on an ongoing basis. Implementation of these program recommendations should reduce the overall program expense per unit or energy saved, thereby increasing the cost-effectiveness and resulting in improved performance at the next evaluation."[35]

Kentucky Power proposes implementing the following recommendations:

- For the Residential Efficient Products Program – (1) Remove incentive for LED holiday lights, and LED nightlights, which are already well established in the marketplace; (2) Remove incentive for Energy Star ceiling fans, which are purchased primarily on aesthetic preference rather than as energy-saving devices; (3) Establish separate goals for standard CFL bulbs and non-standard CFL bulbs. These bulbs have different incentive amounts and separation will better allow Kentucky Power to determine the progress of the program and remain within budget; and (4) Add incentive for LED bulbs. The LED bulb market is maturing, costs are decreasing, and LEDs are the next step in efficient lighting; and (5) Evaluation, Measurements and Verification contractor and implementation contractor will evaluate the energy-saving impact of the new measures.

[35] Response to Commission Staff's Third Request for Information, Item 6.c., filed Dec. 14, 2012.

- For the Small Commercial Heat Pump/Air Conditioner Incentive Program – Utilize an implementation contractor if determined to be cost-effective based on vendor proposals.

- For the HVAC Diagnostic and Tune-Up Program – (1) Utilize an implementation contractor if determined to be cost-effective based on vendor proposals; (2) Remove the incentive for Residential Central Air Conditioners to improve program's cost-effectiveness; (3) Remove incentive for commercial central air conditioners to improve program cost-effectiveness; (4) Reduce the contractor incentive to $25 (from $50) and the customer incentive to $30 (from $50 for residential customers and $75 for commercial customers); and (5) Although not specifically defined in the original filing the Kentucky Power also plans to implement the evaluation recommendation to extend customer eligibility to every five years (the measure life) and require the customer to submit the incentive rebate form.

- For the Commercial Incentive Program – (1) Use an incentive reservation period (the time between project completion and incentive payment) of 90 to 180 days based on the project type, rather than a fixed 180 days reservation of incentive funds pending customer project completion. The option for limited-time extension included with the original filing would still apply; (2) Use minimum random inspections of 15 to 20 percent of pre- and post-installation projects, with option for potential adjustment of the percentage of inspections based on inspection results; and (3) Provide incentives of 60 to 70 percent of the installed equipment cost for the Direct Install[36] program targeting small commercial customers (less than 100 kW peak demand).

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[36] Response to Commission Staff's Second Request for Information, Item 17, filed Nov. 8, 2012.

The Commission recognizes that the cost-effectiveness test results for 2011 provided by AEG for three of the four programs are not cost-effective, the exception being the Residential Efficient Products. However, Kentucky Power should be granted a good-faith effort to implement AEG recommendations with the desired goal to improve performance and increase the cost-effectiveness of the programs, considering that the overall bundled DSM portfolio is cost-effective.

COMMISSION CONCERNS AS TO COST-EFFECTIVENESS AND PARTICIPATION

One of the points indicated in the Key Findings section of the Commercial Incentive Program and Small Commercial Heat Pump/Air Conditioner Incentive Program evaluation reports is the high fixed costs associated with administrative costs, independent of program participation. Kentucky Power maintains that many of these fixed costs are one-time start-up and implementation expenses, and that the high fixed costs may not be incurred in the future.

The Commission is concerned that an implementation contractor is needed to administer the Residential High Efficiency Heat Pump Program, Mobile Home High Efficiency Heat Pump, and Mobile Home New Construction programs. These programs have been managed in-house by Kentucky Power staff since their inception.[37] The Commission is concerned as to the additional cost to these programs, as well as the ongoing cost-effectiveness of the programs.

Kentucky Power believes that implementing certain of the recommendations from the program evaluations should help to improve the overall operation and cost-effectiveness of these programs. But, if the programs are deemed as non-cost-effective

[37] Response to Commission Staff's First Request for Information, Item 17.a., filed Oct. 11, 2012.

during the next evaluation and there are no recommended modifications to improve the program, then Kentucky power will consider recommending elimination of the non-cost-effective DSM program(s).[38]

In response to another Commission Staff information request,[39] Kentucky Power provided information on whether each program would reach its program expenditure and participation goals. The following is a table listing programs that were trending low in reaching their 2012 goals:

Program	Annual Budget	Total YTD Cost 1/	Budgeted Participants/ Units	Actual Participants/ Units 1/
Targeted Energy Efficiency Program All Electric	$397,500	$252,816	390	181
Mobile Home New Construction Program	$104,750	$73,950	190	132
Commercial High Efficiency Heat Pump/Air Conditioner Program	$50,474	$26,426	60	18
Residential and Small Commercial Load Management Program	$303,185	$216,427	240	100
Commercial Incentive Program	$1,630,725	$596,954	172	48

1/ Through October 2012

The Commission remains concerned that program goals of the DSM expenditures and participation are not being met. The Commission is also concerned that four of the programs evaluated were not cost-effective. The Commission will

[38] Response to Commission Staff's Third Request for Information to Kentucky Power Company, Item 8, filed Dec. 14, 2012.

[39] Response to Commission Staff's Third Request for Information to Kentucky Power Company, Item 7, filed Dec. 14, 2012.

continue to monitor participation levels by program, whether the high fixed costs are one-time start-up and implementation expenses and not incurred in the future, and whether the evaluated programs seem to be reaching goals and are becoming more cost-effective.

The Commission encourages Kentucky Power to continue to interact with its trade allies, whether through its staff or implementation contractors, and in promoting and marketing its programs to prospective participants. The Commission will continue to closely monitor Kentucky Power's efforts to develop and promote cost-effective DSM programs.

FUTURE EVALUATION OF DSM PROGRAMS

In this current proceeding, five DSM programs were to continue until December 31, 2012. One program is to continue until December 31, 2013. And six programs are to continue until December 31, 2014. The Commission believes that instead of receiving an application with a partial evaluation of a utility's overall DSM portfolio of programs, that all programs should be evaluated at the same time and in the same application. The exception would be in applications that include a new program or an expansion of an existing program.

SUMMARY

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

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

2. Kentucky Power's request that the current residential and commercial DSM factors remain in effect until the Commission's Order in Kentucky Power's next DSM proceeding[40] should be approved.

3. A two-year extension, rather than a three-year extension as requested by Kentucky Power, should be approved for the following programs: (1) Commercial Incentive Program; (2) Residential and Small Commercial Heating Ventilation and Air Conditioning ("HVAC") Diagnostic and Tune-Up Program; (3) Residential Efficient Products Program; and (4) Commercial High Efficiency Heat Pump/Air Conditioner Program beginning 2013.

4. The evaluation reports should be approved for the following Kentucky Power DSM programs: (1) Commercial Incentive Program; (2) Residential and Small Commercial Heating Ventilation and Air Conditioning ("HVAC") Diagnostic and Tune-Up Program; (3) Residential Efficient Products Program; and (4) Commercial High Efficiency Heat Pump/Air Conditioner Program.

5. Consistent with Kentucky Power's request to amend its application, the one-year extension of the Pilot RCLM Program should not be extended through December 31, 2013 because the program will be unable to meet the objectives of the requested extension,[41] and the program should be terminated.

6. Kentucky Power's request to continue to pay the DSM incentive payments to currently participating customers for service rendered until the earlier of (1) the date the installed Pilot RCLM Program load-control equipment is removed or the customer

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[40] Corrected Motion to Amend Application, ¶ 7.a., filed Jan. 28, 2013.

[41] *Id.*, ¶ 6.

notifies Kentucky Power that the customer does not want the equipment removed; or (2) February 28, 2013 (with credits to appear on the bill received in March 2013), the end of the winter season under the existing Tariff D.S.M.C.,[42] should be approved.

7. Kentucky Power's request to extend its next DSM filing from February 15, 2013 to April 15, 2013,[43] should be approved.

8. All of Kentucky Power's DSM programs should be evaluated at the same time and in the same application by August 15, 2014.

9. In a year when there are DSM program evaluations or proposed expanded or new programs filed with the Commission, Kentucky Power should file an application by August 15 that includes the following: (1) a prior year actual Status Report and an actual year-to-date June 30 Status Report, in a manner currently filed by program; (2) an actual fiscal year based on July 1 to June 30, along with a projected fiscal year, in a manner similarly filed in the current Exhibit C, for the recovery of program costs, lost revenues, and incentives, that are used in determining the true-up of proposed DSM factor(s); and (3) all program evaluations or/and proposed expanded or new programs.

10. In a year when there are no DSM program evaluations or proposed expanded or new DSM programs filed with the Commission, Kentucky Power should file the following by November 15 using the Commission's electronic Tariff Filing System:

- A revised tariff sheet showing the proposed DSM factors that are to be effective for the first billing cycle for the revenue month of January for the next year.

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[42] *Id.*, ¶ 7.b.

[43] *Id.*, ¶ 7.c.

- All necessary supporting documentation to support the true-up of the proposed DSM factor(s) including: (1) a Status Report for each program of the prior year actual and year-to-date actual as of June 30 in a Portable Document Format (PDF) document; and (2) the current Exhibit C in an Excel document with all formulas intact and cells unprotected, along with all supporting documentation for the recovery of program costs, lost revenues, and incentives, that are used in determining the true-up of the proposed DSM factor(s).

11. Kentucky Power should keep the Commission informed as to its efforts to implement a future residential and small-commercial load-control program, whether the implementation is done in-house by Kentucky Power or through an implementation contractor, until a load control program has been fully implemented.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's motion to amend the application is granted.

2. Kentucky Power's request that the current residential and commercial DSM factors remain in effect until the Commission's Order in Kentucky Power's next DSM proceeding is approved. The current rates in effect are the following:

Residential	$0.000826
Commercial	$0.000538

3. A two-year extension, rather than a three-year extension as requested by Kentucky Power, is approved for the following programs: (1) Commercial Incentive Program; (2) Residential and Small Commercial Heating Ventilation and Air Conditioning ("HVAC") Diagnostic and Tune-Up Program; (3) Residential Efficient

Products Program; and (4) Commercial High Efficiency Heat Pump/Air Conditioner Program beginning 2013, along with the evaluation reports for those programs.

4. The evaluation reports are approved for the following Kentucky Power DSM programs: (1) Commercial Incentive Program; (2) Residential and Small Commercial Heating Ventilation and Air Conditioning ("HVAC") Diagnostic and Tune-Up Program; (3) Residential Efficient Products Program; and (4) Commercial High Efficiency Heat Pump/Air Conditioner Program.

5. Consistent with Kentucky Power's request to amend its application, the one-year extension of the Pilot RCLM Program through December 31, 2013 is denied and the program is terminated.

6. Kentucky Power's request to continue to pay the DSM incentive payments to currently participating customers for service rendered until the earlier of (1) the date the installed Pilot RCLM Program load-control equipment is removed or the customer notifies Kentucky Power that the customer does not want the equipment removed; or (2) February 28, 2013 (with credits to appear on the bill received in March 2013), the end of the winter season under the existing Tariff D.S.M.C.,[44] is approved.

7. Kentucky Power's request to extend its next DSM filing from February 15, 2013 to April 15, 2013, is approved.

8. All of Kentucky Power's DSM programs shall be evaluated at the same time and in the same application by August 15, 2014.

9. In a year when there are DSM program evaluations or proposed expanded or new programs filed with the Commission, Kentucky Power shall file an application by

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[44] *Id.*, ¶ 7.b.

August 15 that includes the following: (1) in a manner currently filed by program, a prior year actual Status Report and an actual year-to-date June 30 Status Report; (2) in a manner similarly filed in the current Exhibit C, an actual fiscal year based on July 1 to June 30, along with a projected fiscal year, the supporting documentation for the recovery of program costs, lost revenues, and incentives, that are used in determining the true-up of proposed DSM factor(s); and (3) all program evaluations and/or proposed expanded or new programs.

10. In a year when there are no DSM program evaluations or proposed expanded or new DSM programs filed with the Commission, Kentucky Power shall file the following by November 15, using the Commission's electronic Tariff Filing System:

- A revised tariff sheet showing the proposed DSM factors that are to be effective for the first billing cycle for the revenue month of January for the next year.

- All necessary supporting documentation to support the true-up of the proposed DSM factor(s) including: (1) a Status Report for each program of the prior year actual and year-to-date actual as of June 30 in a Portable Document Format (PDF) document; and (2) the current Exhibit C in an Excel document with all formulas intact and cells unprotected, along with all supporting documentation for the recovery of program costs, lost revenues, and incentives, that are used in determining the true-up of the proposed DSM factor(s).

11. Kentucky Power shall keep the Commission informed as to its efforts to implement a future residential and small commercial load-control program, whether the implementation is done in-house by Kentucky Power or through an implementation contractor, until a load control program has been fully implemented.

By the Commission

ENTERED

FEB 22 2013

KENTUCKY PUBLIC SERVICE COMMISSION

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