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PSC Adopts Federal Smart Grid Standard for Kentucky

Energy efficiency emphasized in long-range planning

FRANKFORT, Ky. (Oct. 6, 2011) – The Kentucky Public Service Commission (PSC) today directed Kentucky's jurisdictional electric utilities to adopt the federal standard that requires consideration of the use of advanced "Smart Grid" technologies whenever they invest in their transmission and distribution systems.

The PSC's decision came at the conclusion of its consideration of standards set forth in the 2007 Energy Independence and Security Act (EISA 2007). The federal law directed states to consider five standards for electric utilities and two for natural gas utilities.

While generally agreeing with the goals set forth in the federal law, the PSC determined that only the Smart Grid investment standard should be adopted at this time. It declined to adopt four standards and deferred action on two others. However, it also set a Kentucky standard requiring the inclusion of energy efficiency on an equal footing with the addition of generating capacity in the long-range plans, known as Integrated Resource Plans (IRPs), submitted to the PSC by electric utilities in Kentucky.

Smart Grid refers to an array of advanced technologies designed to improve information flow, reliability and operations, and to promote energy efficiency and conservation.

"Although adoption of the standard does not require investment in Smart Grid technology or infrastructure, the Commission believes that adoption of the EISA 2007 Smart Grid Investment Standard is appropriate in that it will require electric utilities to investigate and consider Smart Grid technology and infrastructure as part of their investment decisions," the PSC said in an order issued today.

While adopting the Smart Grid investment standard, the PSC also stated that it will establish an administrative proceeding to examine in greater detail issues associated with Smart Grid technologies, including the use of smart meters that can transmit usage data in real time to both the customer and the utility. Among the issues to be addressed in the proceeding are rate structures that encourage energy conservation and rate recovery of Smart Grid expenditures.

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The administrative proceeding also will consider another of the proposed EISA 2007 Smart Grid standards. It sets forth the types of information, including rates, usage and energy sources, that an electric utility should provide to its customers and how it is to be provided.

A decision on the Smart Grid information standard will be made at the conclusion of the administrative proceeding.

In adopting its own standard for consideration of energy efficiency in IRPs, the PSC ordered utilities to "adopt policies establishing cost-effective energy efficiency resources with equal priority as other resource options" such as construction of added generating capacity. Utilities will have to explain how energy efficiency was considered in both its IRPs and if it proposes adding new capacity.

While similar to the federal standard, the Kentucky standard recognizes the limitations in current Kentucky statutes and regulations, the PSC said in today's order. "Simply put, the Kentucky IRP standard requires that utilities make energy efficiency resources a priority" within the current regulatory framework, the PSC said.

The PSC also deferred action on the EISA 2007 standard that addresses how to encourage the capture of waste energy from industrial processes and use it to generate electricity. States are not required to consider the standard until such a project is proposed. No waste energy facility is pending in Kentucky and the PSC will not act on the standard until a facility is formally proposed for PSC consideration.

The standards the PSC chose not to adopt were:

1. Integrated Resource Planning (IRP) for electric utilities – The EISA 2007 standard is intended to put energy efficiency on an equal footing with new capacity as a way of balancing supply and demand. The PSC found that Kentucky's current requirements, including the new IRP standard adopted in today's order, accomplish the same goal. Kentucky's existing programs, notably the demand-side management statute and the standards for addition of new generating capacity, also promote energy efficiency, the PSC said. Furthermore, adopting the federal standard as currently proposed is impractical until such time as either a federal or Kentucky energy efficiency standard is adopted.
2. Rate Design Modifications to Promote Energy Efficiency Investments – In examining this standard, the PSC determined that existing state laws and regulations, notably those related to demand-side management, adequately address this issue. However, the PSC put utilities on notice that it will take into consideration a utility's energy efficiency and conservation efforts when it examines future rate adjustment requests, particularly proposals to increase the

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monthly customer charge. It also expressed concern that electric cooperatives within its jurisdiction have not adopted demand-side management programs to the same extent as investor-owned utilities.

3. Gas Energy Efficiency Standard – In declining to adopt this standard, the PSC noted that natural gas system infrastructure, which only delivers gas, offers little opportunity to avoid capital costs by improving efficiency. All five of Kentucky's major gas utilities have some energy efficiency and conservation programs in place, the PSC said. It directed the five companies to "develop policies and procedures that ensure that cost-effective energy efficiency is considered as a priority resource," and to submit those documents to the PSC.
4. Gas Rate Design Standard – The EISA 2007 standard seeks to modify gas rates in a way that would encourage energy conservation, specifically by having a utility reflect all of its fixed costs in a fixed charge, with no portion of the fixed costs recovered through variable charges that depend on the volume of gas delivered to a customer. The PSC noted that settlements reached in recent natural gas rate cases have moved in that direction. But moving all fixed costs into a fixed charge would make financial incentives for energy conservation largely dependent on the price of natural gas itself, which is unregulated. Furthermore, the large monthly charges could prompt consumers to switch to less-efficient electric heat, the PSC said. For those reasons, and because it believes that existing demand-side management programs already create incentives for conservation and efficiency, the PSC declined to adopt the EISA 2007 standard.

Parties to the review of the proposed EISA 2007 standards included all of Kentucky's jurisdictional electric utilities, the five major natural gas local distribution companies, the Kentucky Office of Attorney General, representatives of industrial and low-income consumers and Trilliant, Inc., which makes communication equipment for smart grids.

Today's order and related documents are available on the PSC website, psc.ky.gov. The case number is 2008-00408.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 100 employees.

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