

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE DEMAND SIDE MANAGEMENT PROGRAMS)	
AND DEMAND SIDE MANAGEMENT COST)	CASE NO.
RECOVERY FILING OF AMERICAN ELECTRIC)	2001-255
POWER D/B/A KENTUCKY POWER COMPANY)	

O R D E R

This matter comes before the Commission via the August 15, 2001 filing of American Electric Power d/b/a Kentucky Power Company (“AEP/Kentucky”) on behalf of its Demand-Side Management Collaborative (“Collaborative”). The filing includes: status reports for each of AEP/Kentucky’s Demand-Side Management (“DSM”) programs; a revised Experimental DSM Adjustment Tariff (“DSM Tariff”) to adjust the residential and commercial DSM surcharge factors effective September 27, 2001; and a request for approval of a Residential Energy Assistance Program (“REAP”), a subsidy program for low-income residential customers.

The individual status reports include year-to-date and program-to-date costs of each program through June 30, 2001, and estimated year-to-date and program-to-date demand and energy savings attributed to each program through June 30, 2001. The report on the High Efficiency Heat Pump – Retrofit program indicates the Collaborative has agreed to terminate the program at the end of 2001 unless it experiences a substantial increase in the number of participants prior to that time.

The revised DSM Tariff increases the DSM surcharge factors for both residential and commercial customers. The factor for the residential class will change from \$.000077 to \$.000101 per Kwh and the commercial class factor will change from \$.000092 to \$.000196 per Kwh. These revised factors were calculated using the same methodology used by AEP/Kentucky and approved by the Commission in each of AEP/Kentucky's semi-annual DSM filings since 1995.

The sole intervenor in this matter is the Kentucky Division of Energy ("KDOE"), a non-voting member of the Collaborative. An informal conference was held on September 10, 2001, to discuss issues related to the filing, particularly issues related to the proposed REAP program. The conference was attended by AEP/Kentucky, Commission Staff, KDOE, and other Collaborative members, including the Office of the Attorney General ("AG"). None of the attendees took exception to the continuation of the existing DSM programs or the proposed DSM surcharge factors. Written comments on the REAP proposal from AEP/Kentucky and KDOE were filed with the Commission on September 20, 2001.

REAP PROPOSAL

REAP is a subsidy program for low-income residential customers that qualify for the federal Low-Income Home Energy Assistance Program. AEP/Kentucky requests approval of the REAP program now although it will not be implemented until 2002 and no program costs are included in the proposed DSM surcharge factors. The AG does not endorse REAP, and abstained from voting on the program.¹ KDOE, a non-voting member of the Collaborative, supports the DSM filing and the REAP proposal.

¹ The program was approved with no Collaborative member voting "NO."

However, it questions whether AEP/Kentucky should include a maximizing incentive amount in the costs to be covered from customers, prospectively, the same as it would for a traditional DSM program. Such an incentive is the equivalent of profit, or earnings, that AEP/Kentucky is permitted to recover on DSM programs for which demand or energy reductions are not easily quantified. Because REAP is a subsidy program which may not produce any demand or energy savings, KDOE argues that a maximizing incentive is inappropriate.

REAP is the first energy assistance program submitted for Commission review under the revisions to KRS 278.285 enacted by the 2001 General Assembly. Those revisions direct the Commission to review two specific aspects of energy assistance programs: (1) the degree to which the program is supported by interested stakeholders or members of the utility's DSM collaborative, and (2) whether the costs of the program are assigned to the proper customer classes. In this instance, both criteria have been satisfied.

The Commission finds that KDOE's argument for not including a maximizing incentive as part of the costs of REAP is unpersuasive. Although an energy assistance program is not traditional DSM, it has been defined as a DSM program by the Kentucky legislature. As such, it falls under the cost recovery provisions of AEP/Kentucky's DSM plan, which, as approved by the Commission, permits a maximizing incentive to be included for any program for which demand or energy reductions are not easily quantified.

AEP/Kentucky indicates that the subsidy provisions of REAP should improve customers' ability to pay their utility bills, resulting in reductions in its collection costs,

uncollectible accounts, bad debts, and costs related to disconnections and reconnections. Since such reductions in costs appear to be the primary benefit and possibly the only benefit, for ratepayers that do not qualify to participate in the program, it will be essential for the Commission to review AEP/Kentucky's estimates of these cost reductions when the program's costs are included in future DSM surcharges. The reasonableness of the program's cost will be critical to the Commission's determination of whether those surcharges result in fair, just, and reasonable rates for AEP/Kentucky's non-participating ratepayers.

SUMMARY

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

1. AEP/Kentucky has continued to keep the Commission properly informed of the progress and status of its DSM programs by filing the individual status reports.
2. AEP/Kentucky's revised DSM surcharge factors are reasonable as they reflect the expected level of DSM program costs for the remainder of calendar year 2001 and the true-up of prior period DSM costs and revenues.
3. AEP/Kentucky's REAP as proposed is reasonable and should be approved.
4. The costs and benefits of REAP should be provided in future DSM filings to support AEP/Kentucky's future DSM surcharge calculations.

IT IS THEREFORE ORDERED that:

1. AEP/Kentucky's revised DSM Tariff and the revised DSM surcharge factors of \$.000101 per Kwh for the residential class and \$.000196 per Kwh for the commercial class are approved effective September 27, 2001.

2. REAP is approved as proposed. AEP/Kentucky shall implement the program as set out in its application and shall provide in support of future DSM surcharge calculations the costs and benefits of REAP.

3. Within 10 days from the date of this Order, AEP/Kentucky shall file a revised DSM Tariff showing the date of issue and that it was issued by authority of this Order.

Done at Frankfort, Kentucky, this 27th day of September, 2001.

By the Commission

ATTEST:


Executive Director