

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ANNUAL COST RECOVERY FILING FOR)	
DEMAND SIDE MANAGEMENT COSTS BY THE)	CASE NO. 2001-309
UNION LIGHT, HEAT AND POWER COMPANY)	

O R D E R

This matter comes before the Commission as a result of the September 25, 2001 filing by The Union Light, Heat and Power Company (“ULH&P”) and the Northern Kentucky Community Action Commission (“CAC”) on behalf of ULH&P’s Demand-Side Management Collaborative (“Collaborative”). The filing includes summary reports on each of ULH&P’s existing Demand-Side Management (“DSM”) programs, revised DSM electric and gas tariffs, and request for approval of a pilot home energy assistance program, Home Energy Assistance Plus.

The summary reports on the existing programs include, among other things, estimated energy savings or penetration rates for each program since their inception in 1997 and cost projections agreed upon by the Collaborative for calendar year 2002. The reports also include descriptions of all program changes implemented in 2001 and changes that the Collaborative has agreed to implement in 2002.

The revised DSM tariffs reflect decreased DSM charges for residential gas and electric customers and increased DSM charges for non-residential electric customers. The factor for non-residential gas customers is unchanged. The DSM charge for residential gas customers will be \$(.262372) per Mcf while the charge for residential electric customers will be \$(.000231) per kWh. The non-residential gas charge for DSM

will remain at \$00.00 per Mcf, while the non-residential electric charge will be \$.000616 per kWh for distribution service and \$00.00 per kWh for transmission service.

There were no intervenors in this proceeding. The application was submitted by ULH&P and CAC on behalf of ULH&P's DSM Collaborative, which also includes the Kentucky Attorney General ("AG"), People Working Cooperatively, League of Women Voters, Brighton Center, Northern Kentucky Legal Aid, Kentucky NEED Project, Home Builders Association of Northern Kentucky, Campbell County Fiscal Court, and the Kentucky Division of Energy. An informal conference was held on October 16, 2001, to discuss issues raised by the filing, particularly issues related to the proposed Home Energy Assistance Plus program. The conference was attended by representatives of ULH&P and Commission Staff. Subsequent to the conference, ULH&P clarified that the proposed effective date for the proposed DSM charges and the first day of its January 2002 billing cycle is January 2, 2002.

The summary reports on the existing DSM programs provide the necessary information to allow the Commission to remain properly informed of the progress and status of those DSM programs. Based on those summary reports, the Commission concludes that it is reasonable for those DSM programs to be continued in their present forms through 2002. The evaluation period for the existing programs runs through May 2002; ULH&P's next scheduled DSM filing, to cover that evaluation period, is due by September 30, 2002.

HOME ENERGY ASSISTANCE PLUS PROPOSAL

The Home Energy Assistance Program has been submitted for Commission review pursuant to the revisions to KRS 278.285 enacted by the 2001 Kentucky General

Assembly. Those revisions direct the Commission to review two specific aspects of energy assistance programs within the context of DSM: (1) the degree to which the program is supported by customer representatives or members of the utility's DSM collaborative, including the AG; and (2) whether the program's costs are assigned to the customer classes that benefit from the program. In this instance, the members of ULH&P's DSM Collaborative, with the exception of the AG, who abstained, voted unanimously to implement the Home Energy Assistance Plus program. In addition, the program's costs are assigned to the residential gas and electric customer classes, which classes include the customers expected to benefit from the program.

The Home Energy Assistance Program is a pilot program, proposed to run from the time of its approval by this Commission, through May 2002. The program will target 50 low-income residential customers of ULH&P, to be selected by ULH&P and CAC, who must be eligible to receive subsidy payments from the federally-funded Low Income Home Energy Assistance Program, and who participate in an energy conservation and family budgeting education program offered by CAC. The pilot will be funded in the amount of \$50,000, with each of the 50 customers receiving \$250 spread over bills due in February through May 2002. Additional support of up to \$500 may be available at the end of May 2002 to help cover arrearages. That amount would go to customers that demonstrate the ability to remain current on their energy bill obligations during the course of the pilot period. A process and impact evaluation will be conducted on the pilot for the purpose of analyzing the impacts of the program. The results of such evaluation, along with any proposal by ULH&P and CAC related thereto, will be submitted along with ULH&P's September 2002 DSM report to the Commission.

The Home Energy Assistance Plus program is ULH&P's initial proposal in response to the 2001 amendment to the existing DSM statute. The Commission is encouraged that ULH&P and its Collaborative have proposed a pilot program that will involve a relatively small number of customers, have a relatively small budget, and be effective for a limited period of time. We generally find that this approach is appropriate when implementing a program that has not previously been found to be successful by the Commission.

Because of the limited nature of the program – 5 months for 50 customers at a total cost of not more than \$50,000, the Commission finds the proposed Home Energy Assistance Plus program to be a reasonable first effort at the type of program the General Assembly chose to include in the statutory definition of DSM. In view of the relatively immaterial impact its costs will have on the DSM charges to ULH&P's residential ratepayers, we find it appropriate, for a limited pilot of this nature, for the full amount of the budgeted program cost to be recovered from ratepayers.

While the Commission finds the proposed pilot program reasonable as filed, we must emphasize to ULH&P, CAC, and the other members of ULH&P's DSM Collaborative that this approval is entirely related to the limited nature of the program. Should ULH&P and its Collaborative plan to propose an energy assistance program in the future that involves a more substantial funding level, the nature of the program, its funding, and cost recovery will be thoroughly reviewed. There will be a number of issues that will need to be addressed as part of the Commission's review of any such future program and they are discussed in the following section of this Order.

FUTURE ISSUES – ENERGY ASSISTANCE PROGRAMS

Among those issues is the matter of separately tracking the amounts expended to provide assistance on electric bills and gas bills. ULH&P has three groups of residential customers: (1) combination electric and gas customers; (2) electric-only customers; and (3) gas-only customers. Therefore, it is absolutely essential that expenditures be tracked separately for gas and electric operations during the 5-month pilot to ensure that there will be no subsidy of one group of residential customers by another group in any future, larger program.

A second issue is the extent to which a program might improve participating customers' ability to pay their utility bills, resulting in reductions in collection costs, uncollectible accounts, bad debts, and costs related to disconnections and reconnections. Since these cost reductions appear to be the primary benefit, and possibly only benefit, to the ratepayers that are not eligible to participate in such a program, it will be essential for ULH&P to estimate these cost reductions if the costs of any future program are to be recovered from ratepayers. The reasonableness of its net costs, after recognizing these cost reductions, will be critical to the Commission's determination of whether implementing such a program will result in fair, just and reasonable rates for ULH&P's non-participating residential ratepayers.

Another important issue is the manner in which the program will be administered and by whom it will be administered. Other programs in Kentucky involving third parties have at times been administered less efficiently than if the participating utility was actively involved in that function. Likewise, the accounting controls at some smaller agencies can be less sophisticated than the accounting controls of a major utility. For

these reasons, the Commission will carefully scrutinize the administration of this pilot program as part of our review of any future, larger program.

Finally, of major importance in the review of any larger, future program will be the extent of ratepayer funding for the program and determination of an appropriate cost-recovery mechanism. Currently, one energy utility in Kentucky, Columbia Gas of Kentucky (“Columbia”), is operating a program targeted toward assisting low-income customers in paying their utility bills. Columbia’s program is the Customer Assistance Plan, or CAP, which was approved and modified by the Commission as part of a settlement in its most recent general rate case.¹ In approving Columbia’s CAP, the Commission modified the funding to limit the portion for which ratepayers would be responsible to 50 percent of the total annual cost of \$350,000. Similarly, the cost recovery mechanism was modified to require that a “CAP Surcharge” be separately identified on customers’ bills, rather than have the cost subsumed within Columbia’s base rates.²

SUMMARY

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

1. ULH&P has kept the Commission informed of the progress and status of its DSM programs by including the summary reports of each program in its application.

¹ Case No. 94-179, Notice of Adjustment of Rates by Columbia Gas of Kentucky, Inc. on and after July 1, 1994, Order dated November 1, 1994.

² Although ULH&P already shows DSM charges on customers’ bills, a separate charge for an energy assistance program might be considered appropriate since such programs have been set apart from traditional DSM programs in KRS 278.285.

2. ULH&P's new DSM charges are reasonable as they reflect the expected level of DSM costs for 2002 and the true-up of prior period DSM costs and revenues.

3. The proposed Home Energy Assistance Plus program as proposed is reasonable and should be approved as a pilot to run through May 31, 2002.

4. Any future proposal to implement an energy assistance program involving a more substantial funding level should adequately address the issues discussed in the Future Issues – Energy Assistance Programs section of this Order.

IT IS THEREFORE ORDERED that:

1. The revised DSM charges proposed by ULH&P for residential and non-residential gas and electric customers are approved.

2. The effective date of ULH&P's new DSM tariffs shall be January 2, 2002.

3. ULH&P's Home Energy Assistance Plus program is approved on a pilot basis as set out in the application.

4. Within 10 days from the date of this Order, ULH&P shall file revised DSM tariffs showing the date of issue and that they were issued by authority of this Order.

Done at Frankfort, Kentucky, this 28th day of December, 2001.

By the Commission

ATTEST:


Executive Director