

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE	)	
ENERGY AND REGULATORY	)	ADMINISTRATIVE
ISSUES IN SECTION 50 OF	)	CASE NO. 2007-00477
KENTUCKY'S 2007 ENERGY ACT	)	

FIRST DATA REQUEST OF COMMISSION STAFF  
TO DUKE ENERGY KENTUCKY, INC.

Duke Energy Kentucky, Inc. ("Duke"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before March 20, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Duke shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Duke fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to page 3 of the Direct Testimony of Theodore E. Schultz (“Schultz Testimony”).

a. What percentage of each class of customers (residential, commercial, and industrial) does not have the “data, time or desire to evaluate efficiency options?” Explain how Duke determined this to be the case.

b. What percentage of each class of customers (residential, commercial, and industrial) “lack the capital to invest in energy efficiency?” Explain how Duke determined this to be the case.

c. What percentage of each class of customers (residential, commercial, and industrial) is not “aware of the positive impact their individual behaviors can have on the welfare of others on such issues as climate change or national independence?” Explain how Duke determined this to be the case.

d. How long would it take, and what level of effort would be required, for Duke to educate its customers regarding the three issues noted above?

2. Refer to page 4, line 22, through page 5, line 10, of the Schultz Testimony. Mr. Schultz recommends that, in order to align stakeholder interests and expand energy

efficiency as a resource, the electric distribution utility “receive compensation or cost recovery including but not limited to, lost revenues, shared savings and compensation based upon capitalization of a percentage of avoided costs achieved by or associated with all energy efficiency programs.”

a. Given the statements on page 3 of Mr. Schultz’s testimony, identify the specific “stakeholder interests” of each customer class to which he refers.

b. Identify the jurisdictions where this recommendation has been approved or authorized.

c. Is this approach under consideration in any jurisdiction in which the Duke Energy System operates? If yes, describe the status of such consideration.

3. Refer to page 5 of the Schultz Testimony concerning the need for a new regulatory model regarding energy efficiency in Kentucky. Explain whether Duke believes that the language in KRS 278.285 allowing for rate recovery of “incentives designed to provide positive financial rewards to a utility to encourage implementation of cost-effective demand-side management programs” is not adequate to allow for the design and implementation of cost recovery mechanisms that allow for the capitalization and amortization of costs, along with a return on the unrecovered costs.

4. Refer to pages 5-6 of the Schultz Testimony, specifically, the discussion of the proposal to capitalize, amortize and earn a return on the generation costs that are avoided through the energy efficiency efforts.

a. Explain, in detail, why it is appropriate, from a rate-making perspective, to allow such treatment of non-existent costs.

b. Explain why Duke is not considering capitalizing, amortizing, and earning a return of the actual costs of energy efficiency and demand-side management programs.

5. Refer to the Schultz Testimony, page 6, where he advocates that energy efficiency programs be flexible “to assist customers to address rising energy prices in the near term in a manner that provides value from our customer’s perspective.”

a. Given the statements on page 3 of his testimony, describe the specific customer perspective being referenced on page 6.

b. Explain how Duke expects to deliver this value to its customers.

6. Refer to the Schultz Testimony, page 6, which states that Duke plans to “build energy efficiency into standard service offerings making it part of a customer’s everyday life without having to sacrifice the comfort and convenience of electric use.” Identify the type of programs Duke plans to offer and explain how they will assist Duke in accomplishing this objective.

7. Does Duke believe that the Commission currently has the authority under KRS 278.285 to grant the approach suggested in the Schultz Testimony on pages 6 and 7? Explain the answer in detail.

8. Refer to pages 6-7 of the Schultz Testimony. What specific measurement and verification protocols does Duke recommend be implemented to judge achieved demand and energy savings?

9. Refer to page 7 of the Schultz Testimony, specifically, the discussion of the need for flexibility to make program changes, reallocate resources, etc., so that

customers should not be turned away from a program due to pre-set limits on program funding.

a. Explain how Duke would propose that the Commission allow such flexibility while maintaining its current level of oversight of spending levels and cost recovery.

b. Explain how Duke would propose that the Commission allow such flexibility assuming there is an increased level of oversight that includes measurement and verification of existing programs.

10. Refer to the Schultz Testimony at page 9. Mr. Schultz states that, in order to opt out of the utility's conservation offerings, larger commercial and industrial customers should be required to self-certify to the Commission that they have undertaken significant conservation initiatives on their own.

a. Describe how Duke envisions the self-certify process working including the utility's role in the process.

b. Explain why the serving utility should not be obligated to perform the verification and certification for each larger commercial and industrial customer that wants to opt out.

c. Identify any jurisdictions that have mandatory energy efficiency programs in which this opt-out opportunity is currently allowed.

d. Explain how the conservation initiatives by the larger customers could be verified and quantified by the Commission. Include in the explanation whether there are third-party consultants that provide this function.

11. Refer to pages 8-9 of the Direct Testimony of Paul G. Smith (“Smith Testimony”) concerning renewable resources. Provide any Duke system-specific data relied upon in making the statement that renewable resources tend to have higher rates of forced outages (presumably, compared to conventional generating resources). The data should be shown by specific types of renewable resource and should also include forced outage data/rates for Duke’s system-specific conventional generation.

12. Refer to pages 8-9 of the Smith Testimony concerning the forced outage provision in the Commission’s fuel adjustment clause (“FAC”) regulation, 807 KAR 5:056. The FAC regulation’s provision addressing forced outages pertains to the cost of power purchased to substitute for the cost of fuel burned in utility generating plants experiencing the forced outages. The costs permitted to be recovered through the FAC from utility generating plants are limited to fossil fuel costs. Explain why Duke believes that the cost of renewable resources or the cost of replacement power purchased in the event of forced outages at the renewable source generating plants would be recoverable under the FAC regulation.

13. Refer to the Smith Testimony at page 8. Mr. Smith proposes that the FAC regulation should be amended to allow forced outages to be recovered through the FAC, or the regulation should be reevaluated such that a utility is not penalized if it chooses to purchase a renewable resource that may experience a higher rate of unplanned or force outages.

a. The prohibition against recovering certain forced outages from being recovered through the FAC exists, at least in part, to discourage utilities from postponing, or eliminating, maintenance of generation facilities, and to encourage utility

control of replacement power costs. Does Duke agree that this proposal could lessen the incentives for utilities to properly maintain facilities and control replacement power costs? Explain the response in detail.

b. Other than amending the FAC to allow all forced outage cost recovery, does Duke have other alternative proposals to eliminate the forced outage discouragement to the purchase of renewable energy purchases? If yes, describe the proposals.

c. Would Duke support a less restrictive disallowance of forced outage costs that did not include outages from renewable resources? Explain whether there is any mechanism to distinguish between renewables that are unavailable due to forced outage of equipment versus renewables that are unavailable due to lack of energy source (wind, water availability, solar availability, etc).

14. Refer to the Smith Testimony at pages 9 and 10. Mr. Smith proposes that the Commission consider recommending that the General Assembly re-evaluate and restructure the appellate process so that Commission Orders bypass Franklin Circuit Court and become a direct appeal to the Appellate Court. Mr. Smith also states that such a proposal would be beneficial to all stakeholders. Identify each entity that is a stakeholder and explain in detail how this proposal will benefit each entity.



Beth O'Donnell  
Executive Director  
Public Service Commission  
P. O. Box 615  
Frankfort, KY 40602

DATED: March 11, 2008

cc: Parties of Record