COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY, INC. FOR APPROVAL OF AN ENERGY EFFICIENCY PLAN, INCLUDING AN ENERGY EFFICIENCY RIDER AND PORTFOLIO OF ENERGY EFFICIENCY PROGRAMS	)))))	CASE NO. 2008-00495

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

Duke Energy Kentucky, Inc. ("Duke Kentucky"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due by March 30, 2009. 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 Kentucky shall make timely amendment to any prior response 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 Kentucky 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. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to pages 4-5 of the December 1, 2008, application of Duke Energy Kentucky, Inc. ("Duke Kentucky").

a. Regarding the proposed earnings caps, the text at the bottom of page 4 indicates that the caps will vary according to the level of avoided costs savings produced by the proposed energy savings ("save-a-watt") plan. The heading in the table at the top of page 5 reads "ROI Cap on Program Costs Percentage." Explain why the heading refers to "program costs" instead of "avoided cost savings."

b. Explain in detail how the specific earnings cap percentages in the table at the top of page 5 were developed.

2. Refer to the bullets identifying the alleged benefits of the proposed save-a-watt plan, specifically, the second bullet, which appears to indicate that reduced consumption by Duke Kentucky's customers will result in reduced generation which will then result in reduced greenhouse gas emissions. If the plan results in displacing a portion of the electricity otherwise needed to meet Duke Kentucky's customers' energy

requirements, explain how this will result in reduced generation rather than the generation that is "freed-up" being sold elsewhere to someone other than Duke Kentucky's jurisdictional customers.

3. Refer to the full paragraph on page 11 of the application which discusses why Duke Kentucky believes a change is needed in how energy efficiency is treated from a regulatory perspective. The text refers to supply-side investment incentives being more favorable than demand-side investment incentives "because of the utility's opportunity to earn a reasonable return on and of its capital investments." The text refers to the statutory authority of the Commission to approve utility-sponsored demand-side management ("DSM") programs and incentive and cost recovery mechanisms having been in effect for several years.

a. Explain whether Duke Kentucky is aware of this Commission having denied a utility's request to be permitted to earn a return on its investment in DSM programs under the authority conferred upon the Commission by KRS 278.285.

b. Explain whether Duke Kentucky is aware of any jurisdictional utility having made a request to this Commission, pursuant to KRS 278.285, to be permitted to earn a return on its investment in DSM programs.

4. Refer to Attachment B to Duke Kentucky's application. The last paragraph refers to the information used to calculate the avoided costs for Rider SAW. Provide clarification as to the meaning of the last two sentences in the paragraph about the use of an alternative avoided energy cost in the current filing while future avoided energy costs will be calculated through the Integrated Resource Planning process.

5. Refer to the text beginning on line 17 of page 8 of the Direct Testimony of David Freeman ("Freeman Testimony"). Given that Duke Kentucky's capacity reserve margin is not projected to drop below its 15 percent target until 2019, explain why it believes now is the appropriate time to increase its commitment to and investment in DSM and energy efficiency.

6. Refer to pages 11-12 of the Freeman Testimony, specifically, the discussion of the impact on Duke Kentucky's Present Value Revenue Requirements ("PVRR") of implementing the proposed energy efficiency programs.

a. Provide the forecast period covered by the PVRR analysis which shows that implementing the proposed energy efficiency programs produces $97 million in savings compared to a supply-side-only case along with the total PVRR amounts that reflect the $97 million savings.

b. Provide the PVRR savings and the total PVRR amounts when the proposed energy efficiency programs scenario is compared to a continuation of the existing programs and cost recovery mechanism.

7. Refer to page 11 of the Direct Testimony of Julia S. Janson and page 10 of the handout provided at the January 26, 2009 informal conference. The testimony refers to a "small rate increase" of approximately $0.18 per month that a customer using 1,000 kilowatt-hours ("kWh") will experience under Rider SAW. The graph in the handout indicates that revenues under Rider SAW will only slightly exceed revenues under Duke Kentucky's existing "shared savings" DSM cost recovery rider. Provide a detailed explanation of how such small increases provide the greater incentive which Duke Kentucky claims it needs to more aggressively pursue energy efficiency and DSM.

8. Refer to pages 7-8 of the Direct Testimony of James E. Rogers, specifically, the answer starting on page 7, line 19 and continuing to page 8, line 9. The text refers to utilities not having the opportunity to achieve a comparable level of earnings on demand-side investments as they do on their supply-side investments. It refers to conventional regulatory treatment of DSM costs and lost revenues, stating that Kentucky allows a small incentive via a shared savings allowance, then refers to the fact that "energy efficiency programs actually reduce utilities' energy sales."

a. Confirm whether the approved shared savings allowance included in Duke Kentucky's current DSM surcharge is based on the percentage that was proposed by Duke Kentucky in a prior DSM case.

b. If it is not meant to imply that the current treatment of lost revenues is in some way inadequate, explain the purpose of the statement emphasizing that energy efficiency programs reduce energy sales.

9. Refer to pages 10-11 of the Direct Testimony of Theodore E. Schultz ("Schultz Testimony"), which describes the flexibility Duke Kentucky believes is necessary in offering and administering energy efficiency programs and which it plans to have under the proposed save-a-watt program. Explain whether Duke Kentucky has determined that the flexibility described herein cannot be achieved under a traditional DSM regulatory scheme and, if so, how it made that determination.

10. Refer to pages 16-17 of the Schultz Testimony, specifically, the discussion of the energy efficiency programs being offered under Duke Kentucky's save-a-watt proposal. Explain whether there are any features of the proposed programs, or any

other considerations, which would prevent them from being offered under Duke Kentucky's existing DSM cost recovery surcharge mechanism.

11. Refer to page 4 of the Direct Testimony of Paul G. Smith ("Smith Testimony") regarding the components included in the calculation of jurisdictional revenues under Rider SAW.

a. Explain in detail how the specific percentages used in the calculation, 75 percent and 50 percent, were developed.

b. Generally speaking, capacity costs are typically considered long-term in nature, while energy costs are considered short-term. Describe in detail how Duke Kentucky determined that annual avoided <u>capacity</u> cost savings generated by demand response programs and the net present value of avoided <u>energy</u> and capacity costs applicable to conservation programs were the appropriate avoided cost components to include in Rider SAW (emphasis added).

12. Refer to pages 16-17 of the Smith Testimony, specifically, the discussion of the rate impacts of Rider SAW on a residential customer using 1,000 kWh per month's cost under the existing DSM rate and the cost under Rider SAW.

a. Explain why, for comparison purposes, it is appropriate to remove the true-up component contained in the existing Rider DSMR.

b. The proposed Rider SAW residential rate of $0.001779 is 24 percent greater than the actual tariffed surcharge of $0.01416 in Rider DSMR. The $0.001779 is 12.5 percent greater than the current "adjusted" Rider DSM surcharge of $0.001596. After adjusting the Rider DSM surcharge upward in this manner, describe the need for and the process involved in netting out the effect of the "adjusted" Rider DSMR which results in the claimed increase of only 0.2 percent.

13. Refer to pages 8-9 of the Direct Testimony of Richard G. Stevie, Ph.D. ("Stevie Testimony"). Provide copies of the decision orders which have been issued by the commissions in any of the other jurisdictions in which a Duke Kentucky affiliate has filed a version of the save-a-watt plan. If a settlement was reached between the Duke Kentucky affiliate and intervenors, provide copies of the settlement document.

14. Given that Duke Energy Ohio, Inc. is the parent company and owner of Duke Kentucky, explain the relevance of the discussion of investors' interest in the save-a-watt plan on pages 10-11 of the Stevie Testimony.

15. Provide an update of the status of the Market Potential Study discussed on pages 13-14 of the Stevie Testimony.

16. Refer to pages 21-22 of the Stevie Testimony and Attachment RGS-2. Explain why a program (Reach and Teach Energy Conservation) which failed to pass both the Utility Cost Test and Total Resource Cost test is part of the portfolio of programs Duke Kentucky proposes to implement in conjunction with Rider SAW.

17. Refer to page 22 of the Stevie Testimony, specifically, the discussion on lines 12-17 regarding measurement and verification. The fourth reason identified for measurement and verification activities is to "establish independent third-party evaluations and reviews to confirm energy impacts . . .." Describe the process Duke Kentucky intends to use to select independent third parties to perform evaluations.

18. Refer to page 23 of the Stevie Testimony. Provide a description of the firm, TecMarket Works, a summary of the qualifications of Mr. Nick Hall, and a

description for how Duke Kentucky selected Mr. Hall and TecMarket Works for the task referenced in the testimony.

19. Refer to Attachment RGS-3 to the Stevie Testimony, which has been provided under a request for confidential treatment. Provide, for the Commission's confidential files, a version of Attachment RGS-3 in at least a 10-point font.

20. Refer to Attachment B-1 to the application, Rider SAW, specifically, the Applicability section. One of the sentences regarding non-residential customers states that "Customers electing to opt-out of the program will not be credited for an period previously billed."

a. Explain whether Duke Kentucky will notify such customers when Rider SAW is implemented or intends to take a "buyer beware" approach and require that customers be responsible for being aware of if, and when, the rider becomes effective.

b. If Duke Kentucky intends to notify the customers of Rider SAW becoming effective, explain why the rider does not contain language identifying the manner in which they will be notified.

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DATED: MARCH 16, 2009

Cc: Parties of Record

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