COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

FILING OF NEW DEMAND-SIDE MANAGEMENT TARIFFS BY EAST KENTUCKY POWER COOPERATIVE, INC. AND ELEVEN OF ITS MEMBER DISTRIBUTION COOPERATIVES	)))))	CASE NO. 2011-00148

ORDER

On March 31, 2011, East Kentucky Power Cooperative, Inc. ("East Kentucky") filed new tariffs to offer three new Demand-Side Management ("DSM") programs to be available throughout its entire service territory. The new programs are titled as follows: Section DSM-4, Dual Fuel Program; Section DSM-5, Commercial & Industrial Advanced Lighting Program; and Section DSM-6, Industrial Compressed Air Program. The new tariffs containing these new DSM programs are identified as "P.S.C. No. 34, First Revised Sheet Nos. 27, 28, 28.1, 28.2, and 28.3." East Kentucky proposed that all of its new DSM programs have an effective date of May 1, 2011.

East Kentucky is a generation and transmission cooperative that provides wholesale electric service to 16 member distribution cooperatives who, in turn, provide retail electric service to approximately 518,000 customers. Eleven of East Kentucky's 16 distribution cooperatives have filed new tariffs to offer the three new DSM programs to their respective retail customers. Those 11 distribution cooperatives are:

Big Sandy Rural Electric Cooperative Corporation;

Clark Energy Cooperative, Inc.;

Cumberland Valley Electric, Inc.;

Grayson Rural Electric Cooperative Corporation;

Inter-County Energy Cooperative Corporation;

Jackson Energy Cooperative;

Licking Valley Rural Electric Cooperative Corporation;

Nolin Rural Electric Cooperative Corporation;

Owen Electric Cooperative, Inc.;

Shelby Energy Cooperative, Inc.; and

Taylor County Rural Electric Cooperative Corporation.

These 11 distribution cooperatives have proposed varying effective dates for their tariffs, some to be effective May 1, 2011, and others later. East Kentucky's remaining five distribution cooperatives that have not filed new tariffs to adopt these new DSM programs are:

Blue Grass Rural Electric Cooperative Corporation ("Blue Grass");

Farmers Rural Electric Cooperative Corporation ("Farmers");

Fleming-Mason Energy Cooperative ("Fleming-Mason");

Salt River Electric Cooperative Corporation ("Salt River"); and

South Kentucky Rural Electric Cooperative Corporation ("South Kentucky").

The proposed Section DSM-4, Dual Fuel Program, is intended to encourage residential customers to replace existing electric resistance heat furnaces, ceiling cable heat, or baseboard heat with a combination heat pump/gas heat furnace. The new heat pump and gas furnace would have to meet certain minimum efficiency criteria, while the gas furnace could be fueled by either natural gas or propane. East Kentucky would pay a rebate of $2,500 to a distribution cooperative for each residential customer that participates in this program.

The proposed DSM-5, Commercial & Industrial Advanced Lighting Program, is intended to encourage customers to install high efficiency lamps and ballasts in their facilities. Available to commercial and industrial customers actively in business for two years prior to January 1, 2011, East Kentucky will pay a rebate of $533 to a distribution cooperative for each kW of lighting load reduction, with the distribution cooperative retaining $320 of the rebate to compensate for lost revenue and paying the remaining $213 per KW as a rebate to the customer. The maximum rebate to be paid by East Kentucky is $15,000 for commercial customers and $30,000 for industrial customers.

The proposed Section DSM-6, Industrial Compressed Air Program, is intended to encourage industrial customers to reduce electric usage by taking a comprehensive approach to efficient production and delivery of compressed air. Available to industrial customers actively in business for two years prior to January 1, 2011, East Kentucky will pay a rebate of $150 to a distribution cooperative for each kW of reduction in compressed air leakage load as a reimbursement for lost revenue. If the customer reduces at least 60 percent of such leakage, East Kentucky will reimburse the customer, through the distribution cooperative, the cost of the compressed air leakage audit up to $5000, subject to a total payment by East Kentucky of $15,000 per facility.

By Order dated April 29, 2011, the Commission suspended the effective date of the DSM tariffs filed by East Kentucky and 11 of its distribution cooperatives for five months, opened this investigation of those tariffs, and made East Kentucky and all 16 of its distribution cooperatives parties to this case. That Order also included a data request seeking information relating to the contents of the DSM tariffs that were filed and an explanation of the reasons why five of the distribution cooperatives did not file tariffs to adopt the East Kentucky DSM tariff. The Commission then granted the parties' joint request for an extension of time to file responses to the data request and to schedule an informal conference, which was held on July 19, 2011.

On August 2, 2011, East Kentucky filed a motion to withdraw the portion of its pending tariff relating to Section DSM-4, Dual Fuel Program. East Kentucky states that since filing the tariff, it has continued to review and analyze whether this program will be utilized by a reasonable number of retail customers, whether the program benefits will outweigh the costs, and whether the program will be reasonable and effective. Based on that analysis, East Kentucky has determined that the proposed Dual Fuel Program should be withdrawn. Initially, an assumption was made that customers likely to participate in this program would have facilities already installed for the storage and delivery of either natural gas or propane. However, it has now been determined that less than one-half of one percent of customers likely to participate in this program actually has such facilities. Once the cost of adding the requisite gas facilities is factored in, East Kentucky concluded that the program will not pass the cost-benefit test and will not provide the benefits initially projected. Further, East Kentucky states that it is currently preparing its 2012 Integrated Resource Plan ("IRP") and will aggressively evaluate all existing and new DSM programs for the purpose of adopting those programs that are reasonable and cost-effective.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that East Kentucky has shown good cause to withdraw its proposed Section DSM-4 Dual Fuel Program. The withdrawal of this program by East Kentucky renders moot the portion of the tariffs filed by the 11 distribution cooperatives to establish for retail customers the Section DSM-4, Dual Fuel Program. However, the Commission recognizes that the territory served by East Kentucky and its distribution cooperatives have a high concentration of customers with resistance heat, particularly those living in manufactured housing, and that many of those customers are unable to afford the initial cost to install alternative heating systems. Consequently, the Commission finds that East Kentucky should further consider all available options to address this situation and include a detailed analysis of programs considered and potential solutions in its 2012 IRP.

The Commission further finds that, based on the information filed by East Kentucky on July 28, 2011, the proposed Section DSM-5, Commercial & Industrial Advanced Lighting Program, and Section DSM-6, Industrial Compressed Air Program, are reasonable and cost effective, and should be approved. The tariffs filed by the 11 distribution cooperatives to establish these two programs for retail customers should also be approved. As for the remaining five distribution cooperatives that have not filed tariffs to establish these two programs, their data responses filed on August 5, 2011 state that they are individually analyzing the costs and benefits of the programs and, upon completion of the analysis, will decide whether or not to file a tariff to offer either or both programs. Since East Kentucky's proposed tariffs have been filed here for almost six months, we find it reasonable to allow the five non-filing distribution cooperatives an additional 60 days to complete their analysis of these two programs and to file either a tariff adopting the two DSM programs approved herein or their respective cost benefit analyses supporting the decision to not adopt the programs.

IT IS THEREFORE ORDERED that:

1. East Kentucky's motion to withdraw the portion of its tariff proposing Section DSM-4, Dual Fuel Program, is granted.

2. East Kentucky's tariff proposing Section DSM-5, Commercial & Industrial Advanced Lighting Program, and Section DSM-6, Industrial Compressed Air Program, is approved for service rendered on and after the date of this Order.

3. The tariffs filed by the 11 distribution cooperatives named in the findings above are approved for Section DSM-5, Commercial & Industrial Advanced Lighting Program, and Section DSM-6, Industrial Compressed Air Program, for service rendered on and after the date of this Order, and are denied as moot for Section DSM-4, Dual Fuel Program.

4. East Kentucky and the 11 distribution cooperatives named in the findings above shall file, within 20 days of the date of this Order, revised tariffs as

approved herein reflecting their effective date and that they were approved pursuant to this Order.

5. Blue Grass, Farmers, Fleming-Mason, Salt River, and South Kentucky shall file, within 60 days of the date of this Order, either tariffs proposing Section DSM-5, Commercial & Industrial Advanced Lighting Program, and Section DSM-6, Industrial Compressed Air Program, or cost benefit analyses supporting their respective decisions to not adopt the DSM programs.

By the Commission

ENTERED
SEP 30 2011
KENTUCKY PUBLIC SERVICE COMMISSION

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