COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR (1) AUTHORITY TO EXPAND ITS APPLIANCE RECYCLING PROGRAM TO INCLUDE COMMERCIAL CUSTOMERS; (2) AUTHORITY TO RECOVER COSTS AND NET LOST REVENUES, AND TO RECEIVE INCENTIVES ASSOCIATED WITH THE IMPLEMENTATION OF THE PROGRAMS; (3) REPORT IN COMPLIANCE WITH THE COMMISSION'S MARCH 11, 2015 ORDER IN CASE NO. 2015-00271 REGARDING INDUSTRIAL CUSTOMERS; (4) LEAVE TO DISPENSE WITH FILING MONTHLY DSM REPORTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2016-00281

ORDER

On August 15, 2016, Kentucky Power Company ("Kentucky Power") filed an application pursuant to KRS 278.285 to revise its Demand-Side Management ("DSM") program by expanding its Appliance Recycling Program to include commercial customers with peak billing demand of less than 100 kilowatts ("kW") and to make minor modifications to other programs.[1] It also requested that the Commission approve recovery through its DSM surcharge of its full costs, including lost revenues and incentives, associated with its existing, modified, and proposed DSM programs through December 31, 2018. Kentucky Power further requested approval of its DSM Status

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[1] Application, Exhibit 2.

Report,[2] the corresponding tariffs,[3] and the proposed residential and commercial DSM surcharges.[4] Additionally, Kentucky Power is requesting authorization to discontinue the monthly DSM reports previously required by the Commission.[5] The application also contains a response as directed by the Commission's Order in Case No. 2015-00271[6] regarding Kentucky Power's industrial customers. The application reported that Kentucky Power's DSM Collaborative had no objections to the proposed modifications to Kentucky Power's DSM portfolio. The Sierra Club abstained from voting on Kentucky Power's existing and proposed DSM programs.[7]

In its application, Kentucky Power requested an effective date of August 29, 2016, for the proposed DSM-related tariffs referenced above. KRS 278.180(1), however, prohibits any change in rates except upon 30 days' notice to the Commission. Because the instant application was filed on August 15, 2016, the earliest the proposed rates could become effective, pursuant to KRS 278.180(1), was September 14, 2016. Hence, pursuant to the Commission's Order dated August 24, 2016, a procedural schedule was established and the proposed effective date of Kentucky Power's DSM

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[2] As revised in Kentucky Power's Response to Staff's First Request for Information ("Staff's First Request"), Item 5.b.(3), KPCO_R_I_R_Attachment 1, Revised Exhibit 4.

[3] Application, Exhibit 7.

[4] Application, Exhibit 4.

[5] Application, Direct Testimony of John A. Rogness, III ("Rogness Testimony") at 16.

[6] Case No. 2015-00271, *Application of Kentucky Power Company for (1) Authority to Modify Certain Existing Demand-Side Management Programs; (2) Authority to Implement New Programs; (3) Authority to Discontinue Certain Existing Demand-Side Management Programs; (4) Authority to Recover Costs and Net Lost Revenues, and to Receive Incentives Associated with the Implementation of the Programs; and (5) All Other Required Approvals and Relief* (Ky. PSC Mar. 11, 2016).

[7] Application, paragraph 25.

tariffs was suspended for five months, from September 14, 2016, up to and including February 13, 2017.

Kentucky Power responded to two rounds of requests for information from Commission Staff. There are no intervenors in this matter. On November 14, 2016, Kentucky Power filed a formal request that the matter be submitted for a decision on the evidentiary record. The Commission finds that a formal hearing is not necessary in the public interest or for the protection of substantial rights. Therefore the Commission finds that Kentucky Power's request should be granted and the instant matter is submitted for a decision based upon the evidentiary record.

KENTUCKY POWER'S DSM PROGRAMS

Kentucky Power's current DSM portfolio consists of the following 13 programs:

1. Targeted Energy Efficiency Program
2. New Manufactured Homes Program
3. Energy Education for Students Program
4. Community Outreach Program
5. Residential Efficient Products Program
6. New Construction Program
7. Express Install Program
8. School Energy Manager Program
9. Retro-Commissioning Program
10. Commercial Incentive Prescriptive Customer Program
11. Residential Home Performance Program
12. Appliance Recycling Program
13. Whole House Efficiency Program

Except for the School Energy Manager Program, all of Kentucky Power's DSM programs have been approved through December 31, 2018. The School Energy Manager Program was approved through July 31, 2018, in Case No. 2015-00019.[8]

PROPOSED CHANGES TO EXISTING DSM PROGRAMS

For its existing Appliance Recycling Program, Kentucky Power is seeking authorization to permit its commercial customers with peak billing demand of less than 100 kW to participate under the same terms and conditions as residential customers. Due to the inability of Kentucky Power's recycling contractor to recycle larger commercial-sized appliances, the program will limit the appliance size for eligible commercial customers to secondary operational refrigerators and freezers measuring between ten and 30 cubic feet. This limitation also applies to residential customers.[9] Program operations will be the same for the commercial customers as for the residential customers including the incentives of \$50–\$70. It is projected to be cost-effective with a 2017 Total Resource Cost ("TRC") score of 1.11 for the Mid Scenario.[10]

Kentucky Power is also proposing to modify five residential programs to reflect the phasing out of compact fluorescent light ("CFL") bulbs. Beginning in early 2016, General Electric announced that it would cease manufacturing CFL bulbs and retail establishments, such as Walmart, would begin phasing out Walmart-branded CFLs. Moreover, the contractor for Kentucky Power's Whole House Efficiency Program is

[8] Case No. 2015-00189, *Application of Kentucky Power Company for (1) Approval of a Modified School Energy Manager Program and (2) For All Other Required Approvals and Relief* (Ky. PSC Aug. 3, 2015).

[9] Rogness Testimony at 6.

[10] Application, Exhibit 2 at 5 of 5.

transitioning from CFL bulbs to light-emitting diode ("LED") bulbs.[11] These actions will limit the availability of CFLs used in the Targeted Energy Efficiency Program, the Energy Education for Students Program, the Community Outreach Program, the Residential Efficient Products Program, and the Whole House Efficiency Program.[12] As the current stock is depleted, the modified programs will substitute LED bulbs for CFL bulbs.[13]

Other tariff modifications proposed by Kentucky Power include a modification to the text of the Program Description and the HVAC Equipment and Incentives sections of the Whole House Efficiency tariff. The modification to the Program Description section is intended to clarify the eligible measures.[14] For the HVAC Equipment and Incentives section, the modification will increase the seasonal energy efficiency ("EE") ratio from 14 to 14.5 for replacing resistance heating with a heat pump in response to changing standards.[15]

INDUSTRIAL DSM/EE PROGRAMS AND INDUSTRIAL "OPT-OUT"

In Case No. 2015-00271, the Commission noted that KRS 278.285(3) does not provide for a categorical industrial opt-out of utility-offered DSM or EE programs targeted at industrial customers. Further, the Commission stated that the statute employs a two-part analysis before an industrial customer may opt out: first, the

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[11] Rogness Testimony at 4.

[12] *Id.* at 3.

[13] Energy savings from the lighting component of the Residential Efficient Products Program may not be as high as projected in the next few years due to consumers will select less-efficient legacy lights products as the available combined CFL/LED population of efficient bulbs is reduced.

[14] At Rogness Testimony at 5.

[15] *Id.* at 6.

industrial customer must be an energy-intensive customer; and second, the energy-intensive customer must have adopted EE measures. The Commission ordered Kentucky Power to: (1) identify the number of customers that it has heretofore classified as industrial for purposes of DSM opt-out pursuant to KRS 278.285(3); (2) of those, identify the number of customers that can be categorized as energy-intensive users and provide support for that determination; and (3) identify the number of customers that, in spite of having Standard Industrial Classification code designations, are not energy-intensive customers. To the extent that customers are identified as falling into the last category, the Commission required Kentucky Power to provide an evaluation of cost-effective DSM/EE programs that could be developed or modified to benefit them.

Kentucky Power responded that it currently has 1,303 metered industrial customers.[16] Kentucky Power noted that is has not been able to identify which of these industrial customers employ energy-intensive processes or develop a definition of what constitutes an energy-intensive process, as there is no generally accepted definition and the term is not defined in Chapter 278 of the Kentucky Revised Statutes.[17] Kentucky Power states that an impediment to developing a definition of an energy-intensive process is that customers have their own definitions of what constitutes an energy-intensive process. Some customers which are not classified as industrial consume large amounts of electricity, and thereby argue that their processes are energy-intensive and that they should be eligible to opt out of DSM under KRS

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[16] *Id.* at 9.

[17] *Id.* at 10.

278.285(3). Kentucky Power stresses that a definition of an energy-intensive process should be both easily understood and administered.[18]

Kentucky Power proposes two options to identify industrial customers with energy-intensive processes. The first would be to adopt a process similar to that currently employed by Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E"). KU and LG&E were directed in Case Nos. 2014-00371[19] and 2014-00372[20] to develop a definition of the term "industrial" and to propose criteria for determining whether an industrial customer can qualify to opt out of DSM programs. To address this, KU and LG&E formed a DSM Advisory Group to seek a consensus on a readily administered and understood definition. Kentucky Power states that the definition produced by a Kentucky Power working group may be different from that of KU's and LG&E's working group.[21] For the second (and Kentucky Power's preferred) option, Kentucky Power recommends that the Commission establish an administrative case in which all utilities offering DSM programs and appropriate customer representatives work to develop a single definition to be used by all electric utilities in the Commonwealth. Kentucky Power states that because KRS 278.285(3) applies to all industrial customers receiving service from regulated electric utilities, such a definition

[18] *Id.* at 11.

[19] Case No. 2014-00371, *Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates*, (Ky. PSC June 30, 2015).

[20] Case No. 2014-00372, *Application of Louisville Gas and Electric Company for an Adjustment of Its Electric Rates*, (Ky. PSC June 30, 2015).

[21] Rogness Testimony at 12.

would be uniform and would apply equally to all regulated electric utilities and to all industrial customers.[22]

The Commission notes that Kentucky Power once offered DSM programs to its industrial customers, but due to lack of participation and interest, Kentucky power has not offered an industrial DSM program since December of 1999.[23] Kentucky Power stated that in the 16 years since terminating these industrial programs, it has not received any indication of renewed interest from its industrial customers.[24] Further, Kentucky Power has on staff an Energy Efficiency and Consumer Programs Manager who can provide any interested party with detailed information regarding EE measures.[25]

MONTHLY DSM REPORTS

In Case Nos. 2014-00271[26] and 2015-00271, Kentucky Power was ordered to file monthly updates on the level of direct program expenditures in the current year, with an explanation of how Kentucky Power plans to meet the spending levels required by the

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[22] *Id.* at 12–13.

[23] The Commission approved Kentucky Power's request to discontinue industrial programs in its Final Order in Case No. 95-00427, *The Joint Application Pursuant to 1994 House Bill No. 501 for the Approval of American Electric Power/Kentucky Power Company (AEP/KENTUCKY) Collaborative Demand-Side Management Programs, and for Authority to Implement a Tariff to Recover Costs, Net Lost Revenues and Receive Incentives Associated with the Implementation of the AEP/Kentucky Collaborative Demand-Side Management Programs* (Ky. PSC Sept. 28, 1999).

[24] Rogness Testimony at 14.

[25] Response to Staff's First Request, Item 8.

[26] Case No. 2014-00271, *Application of Kentucky Power Company for ((1) Re-Authorization of Certain of Its Existing Programs; (2) Authority to Discontinue the Commercial and Residential HVAC Diagnostic and Tune-Up Programs; (3) Authority to Amend Its Demand-Side Management Program to Implement Residential Home Performance and Residential Appliance Recycling Program; (4) Authority to Recover Costs and Net Lost Revenues and to Receive Incentives Associated with the Implementation of the Programs; and (5) All Other Required Approvals and Relief* (Ky. PSC Feb. 13, 2015).

Stipulation and Settlement Agreement in Case No. 2012-00578.[27] Kentucky Power requests that, once it reaches the required $6 million spending level, it be allowed to dispense with the monthly expense reports. Kentucky Power believes that given its current level of expenditures for 2016[28] and the forecasted expenditures of $6,638,327 in 2017, it will be able to maintain its post-2016 annual DSM/EE expenditures at or above $6 million and be in compliance with Case No. 2012-00578. Therefore, Kentucky Power contends that the monthly reports are no longer necessary.[29] Kentucky Power also noted that no other utilities are required to file similar monthly reports.

PROPOSED DSM FACTORS

Kentucky Power's current residential DSM factor is $0.003159 per kWh, which it proposes to increase to $0.008013 per kWh. Its current commercial DSM factor is $0.001835 per kWh, which it proposes to increase to $0.004206 per kWh. The basis for the proposed DSM factors is included in revised Exhibit 4.[30]

FINDINGS

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

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[27] Case No. 2012-00578, *Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief* (Ky. PSC Oct. 7, 2014).

[28] Case No. 2015-00271, Kentucky Power Company Summary of Demand Side management Expenses, Month Ended: October 2016 (Filed Oct. 22, 2016, in the Post Case Filings). Kentucky Power's DSM expense report showed total spending of $4.971 million or 83 percent of the required $6 million.

[29] Application, paragraph 22.

[30] Response to Staff's First Request, Item 5.b.(3).

1. Kentucky Power has kept the Commission informed of the progress and status of its DSM programs by timely filing summary status reports of these programs.

2. Kentucky Power's modifications and additions to the current DSM/EE portfolio through December 31, 2018, should be approved.

3. The Commission will not require Kentucky Power to pursue further industrial DSM programs at this time. It appears that Kentucky Power's service territory is not likely to experience any customer growth, much less industrial growth, in the near future, and that industries have tapped into efficiencies independently and chosen to opt out of DSM programs pursuant to KRS 278.285(3). The Commission encourages Kentucky Power to promote and pursue DSM/EE measures with interested industrial customers by assisting in curtailing peak load and/or reducing energy consumption.

4. Kentucky Power should receive approval for its request to cease filing monthly updates regarding the level of direct program expenditures once it reaches $6 million in annual DSM/EE expenditures as required under the Settlement Agreement approved in Case No. 2012-00578.

5. Kentucky Power's proposed DSM surcharge factors of $0.008013 per kWh for residential customers and $0.004206 per kWh for commercial customers, as revised through discovery, should be approved.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's modifications and additions to the current DSM/EE portfolio through December 31, 2018, are approved as filed.

2. Kentucky Power shall continue its consideration and review of potential cost-effective DSM/EE programs, including industrial programs, that could be included in future DSM portfolios.

3. Kentucky Power's request to cease filing monthly updates is approved following its filing that it has achieved the required $6 million 2016 spending level.

4. Kentucky Power's proposed DSM surcharge factors of $0.008013 per kWh for residential customers and $0.004206 per kWh for commercial customers, as revised through discovery, are approved, effective for service rendered on and after the date of this Order.

5. Within ten days from the date of this Order, Kentucky Power shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out rates approved herein and reflecting that they were approved pursuant to this order.

6. Any documents filed pursuant to finding paragraph 3 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

7. The Executive Director is authorized to grant reasonable extensions of time for the filing of any documents required by this Order upon Kentucky Power's showing of good cause for such extension.

By the Commission

ENTERED
DEC 2 9 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

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