COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR REVIEW, MODIFICATION, AND CONTINUATION OF CERTAIN EXISTING DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS	))))))	CASE NO. 2017-00441

ORDER

On December 6, 2017, Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) (collectively "LG&E/KU") filed a joint application seeking approval of their 2019-2025 Demand-Side Management and Energy Efficiency Program Plan (DSM/EE Plan). The application also requested approval of new electric rates for LG&E and KU and new gas rates for LG&E, as set forth in the revised Demand-Side Management Cost Recovery Mechanism (DSM Mechanism) tariffs, which are designed to recover the costs associated with the programs in their proposed DSM/EE Plan. The Companies proposed an effective date of January 5, 2018, for the DSM Mechanism tariffs. Pursuant to KRS 278.108(1), and to the Commission's Order dated January 4, 2018, the proposed effective date of LG&E/KU's DSM Mechanism tariffs was suspended for five months, from January 5, 2018, up to and including June 4, 2018, and a procedural schedule was established.

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General); Kentucky Industrial Utility Customers, Inc. (KIUC); Wal-Mart East, LP and Sam's East, Inc. (collectively, WalMart);[1] and the Metropolitan Housing Coalition (MHC).

LG&E/KU responded to two rounds of discovery from Commission Staff and intervenor testimony was filed by WalMart and the MHC. On March 28, 2018, LG&E/KU filed a joint motion requesting that the existing procedural schedule established on January 4, 2018, be amended to afford them an opportunity to file rebuttal testimony. The Commission granted this joint motion and on April 24, 2018, LG&E/KU filed its rebuttal testimony. On April 26, 2018, LG&E/KU, the Attorney General, and WalMart all requested that the issues in this proceeding be decided upon the existing record. On this same date, MHC filed a letter requesting that an evidentiary hearing be scheduled or, alternatively, that the procedural schedule be modified to allow for an additional set of data requests to be directed to LG&E/KU on their rebuttal testimony, followed by simultaneous briefs and response briefs. LG&E/KU did not object to the proposal of the MHC to modify the procedural order in lieu of holding an evidentiary hearing; however, if the Commission determined that a hearing in this proceeding was necessary, LG&E/KU requested that the Commission deny MHC's request for additional discovery. On May 31, 2018, the Commission granted MHC's request for additional discovery, reserved the right to schedule a hearing if one was determined necessary, and established a briefing schedule. On June 26, 2018, LG&E/KU, the Attorney General, WalMart, and the MHC

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[1] LGE/KU argued against WalMart's intervention, but by order issued February 14, 2018, the Commission found that Walmart has a special interest in the instant matter that is not otherwise adequately represented and granted WalMart intervention.

all filed initial briefs, followed by reply briefs on June 9, 2018. The matter now stands submitted to the Commission for a decision.[2]

LG&E/KU DSM PROGRAM PORTFOLIO

LG&E/KU's DSM/EE plan currently includes the following programs, as approved in Case No. 2014-00003:[3]

1. Smart Energy Profile Program
2. Residential Load Management/Demand Conservation Program
3. Residential Refrigerator Removal Program
4. Residential Low Income Weatherization Program (WeCare)
5. Program Development and Administration
6. Commercial Load Management/Demand Conservation Program
7. Residential Incentives Program
8. Customer Education and Public Information Program
9. Commercial Conservation/Commercial Incentives Program
10. Residential Conservation/home Energy Performance
11. Advanced Metering Systems (AMS) Customer Offering

PROPOSED LG&E/KU DSM PROGRAM PORTFOLIO

Modifications to Current DSM/EE Plan

In Case No. 2014-00003, the Commission ordered LG&E/KU to conduct a study to evaluate the demand and energy savings for its industrial customers. In response to

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[2] KIUC was silent during this proceeding.

[3] Case No. 2014-00003, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Review, Modification, and Continuation of Exiting, and Addition of New, Demand-Side Management and Energy-Efficiency Programs* (Ky. PSC Nov 11, 2014).

this directive, and as part of LG&E/KU's own DSM/EE program review and evaluation process, three studies were performed: (1) the Energy Efficiency Industrial Potential Study;[4] (2) the Residential and Commercial Energy and Efficiency Potential Study; and (3) the Louisville Gas & Electric/Kentucky Utilities Company DSM Program Review.[5] Following these studies, the DSM Advisory Group[6] met three times in 2016 and twice in 2017 to review and evaluate the existing DSM/EE Plan and to develop the proposed DSM/EE Plan.

LG&E/KU state that significant changes in market conditions, in particular the combination of increasing customer adoption of EE measures and declining avoided costs of energy and capacity, have occurred, making it more difficult for DSM/EE programs to be cost-effective.[7] Such changes have necessitated a proposal that contains substantial reductions in the DSM/EE Plan. LG&E/KU began introducing these reductions through a November 29, 2017 tariff filing setting forth their DSM/EE annual budgets for the 2018 DSM/EE program year.[8] In that tariff filing, LG&E/KU began a phase-out of certain DSM/EE Program approved in Case No. 2014-00003. Changes included a revision of the incentive level to $0 for qualifying purchases made after March 31, 2018, for the Residential Incentive Program, discontinuing the Smart Energy Profile

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[4] This study was to comply with the 2014-00003 Order.

[5] Evaluations (2) and (3) were part of LGE/KU's own DSM-EE program review and evaluation processes.

[6] The DSM Advisory Group includes representatives from the Department of Energy Development and Independence, the Attorney General, KIUC, community action agencies, and businesses.

[7] Application at paragraph 16.

[8] See Tariff Filing TFS2017-00653 for Kentucky Utilities and Tariff Filing TFS2017-00654 for Louisville Gas and Electric's 2018 DSM Budget filings.

Program on April 1, 2018, and a reduction of monthly bill credits or incentives for the Residential Load Management/Demand Conservation Program, the Commercial Load Management/Demand Conservation Programs, Commercial Conservation/Commercial Incentives, and Residential Conservation/Home Energy Performance Program.[9]

In their current application, LG&E/KU propose to modify and continue the following six programs:

Low Income Weatherization Program (WeCare): WeCare provides energy audits, energy education, and the installation of weatherization and energy conservation measures for those customers meeting certain income requirements. Currently, incentives are based on a tier structure which is dictated by energy consumption. LG&E/KU proposes to eliminate the current tier structure and offer an incentive structure based upon the average amount of funds per home. LG&E/KU also request to increase the maximum income requirement from the current LIHEAP level to match that of the Weatherization Assistance Program. LG&E/KU aver that this change in the income requirement will allow more low-income customers to participate in the program. Finally, LG&E/KU propose to modify the program to allow master-metered multifamily dwellings to qualify for program services.

Residential and Small Nonresidential Demand Conservation Program: Previously filed as the Residential Load Management/Demand Conservation Program, this program reduces peak demand with load-control devices that cycle central air conditioning systems, heat pumps, electric water heaters, and pool pumps. LG&E/KU propose to maintain this program in a maintenance mode, with no new capital being

[9] Direct Testimony of Gregory S. Lawson ("Lawson Testimony") at 11.

invested and no new load-control devices being deployed. Existing devices will be moved to new customers as current customers exit the program, with the program gradually phased out as the devices eventually fail to operate. In addition, the bill credit previously paid for each month from June through September will be replaced with an end–of-cooling-season bill credit if a load-control event is called. The additional incentives for increased tonnage for small nonresidential participants will be eliminated, and if a load-control device becomes available, it will not be installed on a water heater or pool pump. Bill credits from multifamily customers will no longer be split between the property owner and tenant, but only paid to the participating tenant. Finally, LG&E/KU propose to discontinue all quality assurance and quality control checks on installed devices.

Large Nonresidential Demand Conservation Program: Previously filed as the Commercial Load Management/Demand Conservation Program, this program employs switches or interfaces to customer equipment in small and large commercial businesses to help reduce the demand for electricity during peak times. Similarly to the Residential and Small Nonresidential Demand Conservation Program, LG&E/KU is proposing to maintain a static level of participation and pay a reduced incentive. However, LG&E/KU propose to expand the eligibility to include industrial customers who can be added on a replacement basis as current participants exit the program. Further, LG&E/KU propose to continue to assess the effectiveness of the load-control devices with periodic tests.

Nonresidential Rebates Program: Previously filed as the Commercial Conservation/Commercial Incentive Program, this program is designed to increase the implementation of EE measures by providing financial incentives to assist with the replacement of aging and less efficient equipment and for new construction built beyond code requirements. The program also offers an online tool providing recommendations for EE improvements. Modifications include expanding this program to include industrial customers, subject to the statutory opt-out, and changes in the rebate amount calculation so that rebates are based on the first year annual energy savings rather than an incentive.

The School Energy Management Program (SEMP): First approved in Case No. 2013-00067,[10] this program provides the funding for this school energy assistance program. The program was later extended in Case Nos. 2014-00371[11] and 2014-00372[12] through June 2016, and again through June 2018 in Case No. 2015-00398.[13] In accordance with Case Nos. 2016-00370[14] and 2016-00371,[15] LG&E/KU propose a continuance of this program with a two-year extension for July 1, 2018 through June 30, 2020, at an annual budget of $725,000, with $362,500 allocated to KU and $362,500 to LG&E.

Advanced Metering Systems Customer Service Offering: The Advanced Metering System (AMS) was first approved in Case No. 2014-00003. Under the AMS

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[10] Case No. 2013-00067, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for the Review and Approval of a Two-Year Demand Side Program Related to School Energy Management and Associated Cost* (Ky. PSC Apr. 30, 2013).

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

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

[13] Case No. 2015-00398, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for the Review and Modification of the School Energy Management Program* (Ky. PSC Mar. 31, 2016).

[14] Case No. 2016-00370, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC Jun. 22, 2017).

[15] Case No. 2016-000371, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC Jun. 22, 2017).

offering, customers can request and receive an advanced meter. Case No. 2014-00003 allowed for up to 10,000 total meters and, as of November 30, 2017, 7,125 customers have enrolled in the program and over 5,500 AMS meters have been deployed.[16] LG&E/KU proposed to continue this program unchanged. However, LG&E/KU requested that if they were to receive approval for the full AMS deployment, LG&E/KU would simultaneously request to phase out this DSM/EE program.

Along with the programs terminated in 2018, LG&E/KU proposes to allow the following programs to expire at the end of the approval cycle in December of 2018 due to their failure to meet the cost-benefit thresholds: Residential Conservation Program/Home Energy Performance Program, Residential Refrigerator Removal Program, and Customer Education and Public Information Program.

Industrial Customer Inclusion

In accordance with the Commission's Order in Case No. 2014-00003, LG&E/KU conducted an Industrial Potential Study to research and assess whether DSM/EE programs should be offered to industrial customers.[17] The study results indicated potential cost-effective DSM/EE measures in EE and demand response.[18] Therefore, beginning in 2019, LG&E/KU proposes to include industrial customers in the calculation of the DSM Mechanism and these customers will be eligible for all nonresidential program offerings unless they meet the opt-out criteria for energy-intensive industrial customers in

[16] Direct Testimony of David E. Huff, (Huff Testimony) at 21-22.

[17] This study was initiated in early 2015 and filed with the Commission on May 26, 2017.

[18] Case No. 2014-00003, Post Case Files, LG&E and KU Industrial DSM Potential Assessment, page 3.

accordance with KRS 278.285(3).[19] After three meetings with the DSM Advisory Group, the definitions of industrial and energy-intensive were finalized, as well as steps required to opt out. LG&E/KU proposes that industrial customers with individual meters served under energy-intensive rates may opt out of DSM Mechanism charges and DSM/EE programs if the customers have installed cost-effective EE measures that are not subsidized by other loads. LG&E/KU continue stating that in the case of an industrial customer with multiple meters, only eligible meters can opt out, not of all the customer's meters. Once the customer opts out, the customer cannot return to the program for a year; if the customer chooses to return after the year, the customer must apply to opt back into the DSM/EE program and must stay with the program for a period of three years.

Tariff Revisions

LG&E/KU proposed to adjust the return on equity (ROE) component for the DSM Capital Cost Recovery portion of the DSM Mechanism formula. This adjustment is a reduction from the current 10.5 percent ROE for DSM/EE related capital to 10.2 percent. This 10.2 percent ROE includes the most recently awarded base-rate ROE in Case Nos. 2016-00370 and 2016-00371 of 9.7 percent plus a 50-basis-point incentive. This incentive is based upon KRS 278.285 which includes language that incentives designed to provide positive financial rewards to a utility to encourage implantation of cost-effective DSM. Further, the 50-basis-point incentive is consistent with past DSM Capital Cost Recovery approvals.[20]

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[19] Application at paragraph 21.

[20] LG&E/KU's response to Staff's First Request for Information, Item 13.

Other tariff changes include language to address the descriptions and incentives available to participating customers and proposed changes to the energy charges used to calculate the monthly adjustment factors in the DSM Mechanism. For example, the calculation of the DSM Incentive component of the DSM Mechanism is currently zero based on the budget and savings projections for the 2019 calendar year. This zero DSM Incentive component could change in future DSM Mechanism calculations if the DSM/EE programs produce net resource savings in the future. LG&E/KU note that the calculation method is not modified, but that it is currently zero. Finally, LG&E/KU propose several text changes to address the inclusion of industrial customers in nonresidential programs, including the definition of an energy-intensive industrial customer and the administration process of the industrial customer opt-out process.[21]

DSM/EE PROGRAM COST-EFFECTIVENESS AND ENERGY SAVINGS

LG&E/KU stated that in determining the DS-EE portfolio they propose to continue or implement, they used the industry-standard benefit-cost tests set out in the California Standard Practice Manual ("California tests") as required by the Commission.[22] Of the six programs LG&E/KU propose to continue, only one, the Nonresidential Rebates Program passes the benefit-cost tests.[23] LG&E/KU provided support for the continuation of the other five DSM/EE programs.

For the WeCare Program, LG&E/KU propose to continue as it serves a need for the low-income population. For the Residential and Small Nonresidential Demand

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[21] See the Direct Testimony of Rick E. Lovekamp pages 5 – 8 for the detailed opt-out process.

[22] A DSM program passes one or more of the California tests if the program benefits divided by the program costs equal 1.0 or greater.

[23] Lawson Testimony at 17.

Conservation and Large Nonresidential Demand Conservation Programs, the California tests are low because of a zero avoided-capacity cost.[24] LG&E/KU state that the low benefit-cost score does not imply that these programs have no value. LG&E/KU note that these programs are available to be called upon on hot summer days to reduce customer load, and with high to mid customer participation levels, the system reliability benefits of the programs exceed the stay-open and incentive costs, making the program valuable during extreme weather scenarios.[25] For the SEMP, LG&E/KU propose its continuation to fulfill their commitment, as set forth in the settlement to their 2016 base-rate cases, to apply for the continuation of the SEMP program at its current funding level. LG&E/KU want to continue the AMS Program to build upon the success of the program and cite increased awareness of energy usage and EE behaviors that have resulted.[26]

INTERVENOR'S POSITIONS

ATTORNEY GENERAL

In its initial brief, the Attorney General addresses LG&E/KU's capacity valuation and notes that LG&E/KU currently set the value of avoided cost of capacity at $0/kW due to the amount of forecasted excess reserves.[27] The Attorney General recognizes that this lack of monetary value for capacity impacts the overall cost-effectiveness of LG&E/KU's DSM/EE programs. The Attorney General notes that LG&E/KU are currently performing an analysis of joining a regional transmission organization (RTO), and states

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[24] Huff Testimony at 17.
[25] *Id.*, at 19.

[26] *Id.* at 21.

[27] The Attorney General did not file testimony but did file an initial brief and a reply brief.

an interest in seeing the results of that analysis. He suggests that the Commission require LG&E/KU to study and evaluate the benefits and costs of joining an RTO as membership in an RTO would allow any excess capacity to be monetized through market auctions which in turn would benefit the ratepayers. The Attorney General continues to stress that the Commission should place safeguards to ensure LG&E/KU are consistent on the issue of capacity value and not be allowed to arbitrarily assign a zero monetary value for capacity to ensure the failures of certain DSM/EEE programs while arguing a positive capacity value in another matter.[28]

The Attorney General also stressed that the Commission should encourage LG&E/KU to more fully and formally integrate opinions and discussion results from collaboratives and advisory groups. The Attorney General states that LG&E/KU have instituted a DSM Advisory Group, but simply the presence of customer group representatives and the Attorney General is insufficient; development of a DSM plan requires full involvement, with opinions and ideas incorporated through shared decision making. LG&E/KU should not only propose to the Commission what they deem as reasonable, but also should weigh the stakeholder input as required by KRS 278.285(1)(f).

In regards to WalMart's request to opt out of DSM programs, the Attorney General does not express an opinion as to whether the industrial opt-out as proposed applies to WalMart, but notes that if WalMart is allowed to opt out, the remaining tariff classes of customers will bear the cost shift. Overall, the Attorney General considers most of

[28] The Attorney General cited Case No. 2018-00005 as an example where avoided capacity cost was described as a potential benefit of AMS.

LG&E/KU's DSM/EE programs to be worthwhile and cost-effective, but encourages sustained and enhanced support for programs targeted toward low-income customers and stresses that the LG&E/KU should remember that the purpose of DSM/EE is to benefit customers, not LG&E/KU.[29]

KIUC

The KIUC was silent throughout this proceeding.

WALMART

WalMart filed testimony addressing LG&E/KU's proposed inclusion of the industrial class in the proposed DSM/EE Program. WalMart recommended that the Commission reject the definition of industrial customer and the industrial opt-out as proposed, give consideration to customers who are proactive leaders in the implementation of DSM/EE measures, and, if the Commission does not apply WalMart's proposed definition and parameters surrounding the industrial opt-out, implement a self-direct option.

WalMart cites the opt-out provision concerning DSM/EE programs in KRS 278.285(3) and notes that the statute directs the Commission to allow industrial customers with energy-intensive processes to implement cost-effective EE measures in lieu of participating in utility-sponsored DSM programs. Further, WalMart notes that the Kentucky Legislature did not define industrial, energy-intensive processes, or cost-effective EE measures. WalMart disagrees with LG&E/KU's proposed definition of industrial and asserts that since LG&E/KU do not have industrial rates, the selection of certain rate schedules as being energy-intensive, rather than proposing a definition of

[29] Attorney General's Initial Brief at 7.

energy-intensive, is unfair, if not discriminatory.[30] WalMart argues that there are no well-defined reasons why certain rate schedules should be deemed as energy-intensive and others not. WalMart believes that the LG&E/KU proposal is narrowly defined and discriminatory and arbitrarily picks winners and losers for the purpose of the opt-out in a manner similar to the current definition of industrial, which is based on the North American Industry Classification System (NAICS) Codes.[31]

WalMart suggests that rather than limiting the opt-out to certain rate schedules differentiated based on the customer's level of demand, the criteria should be expanded to allow a broader definition of large users, so that all traditionally industrial rate schedules qualify for the opt-out. WalMart further proposes that the definition of energy-intensive should expand to incorporate a combination of an average monthly load factor and a minimum customer size. Specifically, WalMart proposes to define a customer with an average monthly load factor of 60 percent or more as energy-intensive and a minimum customer size to match the requirements for the Time-of-Day Schedules, or 250 kW or secondary service and 250 kVA for primary service.[32]

In its testimony, WalMart notes its active use of and participation in DSM and EE Programs, citing specific examples. WalMart states that the company is able to tailor programs that maximize the impact of DSM and EE measures at its facilities, take advantage of economies of scale, and assume all risk without participating in utility-sponsored DSM/EE programs. WalMart recommends that if the Commission chooses

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[30] LG&E/KU lists rate schedules Fluctuating Load Service (Rate FLS), Retail Transmission Service (Rate RTS), and Rate TODP as being energy intensive and allowed to opt out.

[31] Direct Testimony of Kenneth E. Baker (Baker Testimony) at 11.

[32] *Id.*, at 12.

not to implement a broader definition of industrial and energy intensive, as an alternative the Commission should allow for self-directed programs such as WalMart's.[33] For this alternative, WalMart argues that customers who reach a benchmark level of 15 million kWh per year in the aggregate should be able to elect whether to participate in the Companies' DSM programs; if they choose to not participate they should not be assessed the monthly commercial DSM surcharge.

In response to WalMart, LG&E/KU state that the companies believe that "the General Assembly did not intend to include commercial customers, including large retailers like WalMart, in the industrial opt-out provided in KRS 278.285(3)."[34] LG&E/KU further aver that the Commission's authority concerning DSM/EE programs does not allow for the Commission to approve a program proposed by a non-utility, including a self-direct program like that proposed by WalMart.[35] LG&E/KU note that WalMart is not served under an industrial rate, as their electric service rates are distinguished by demand, not by the purpose for which the customer uses the service; and for gas sales service, no WalMart locations are served under the industrial rate, Rate IGS.

Regarding the proposed definition of industrial, LG&E/KU request the Commission accept their proposed definition, arguing that it is consistent with the definition of an industrial entity as defined in KRS 56.440(6), with the U.S. Energy Information Agency definition, and with the American Gas Association. Moreover, LG&E/KU state that their definition of industrial is consistent the previous Commission approved definitions,[36] while

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[33] *Id.*, at 14 and 16.

[34] Rebuttal Testimony of Rick E. Lovekamp at 1.

[35] *Id.*

[36] *Id.*, at 4 – 6.

definition of industrial is consistent the previous Commission approved definitions,[36] while WalMart's proposed definition is broad and over-inclusive and has nothing to do with a customer being industrial. LG&E/KU state that defining a customer as energy-intensive if the customer's minimum average monthly load factor is 60 percent is faulty and superfluous and note that WalMart did not include an explanation or support for choosing the 60 percent threshold. Further, LG&E/KU claim that a typical industrial customer has high peak loads and relatively low load factors, so using a load-factor requirement is not sensible.[37] LG&E/KU contend their proposed definition of an industrial and energy-intensive process is well supported, aligns with historical energy intensities of LG&E/KU's industrial customers, and was discussed with the DSM Advisory Group, of which WalMart is a participant.

LG&E/KU also address WalMart's self-direct proposal. First, LG&E/KU reiterate that WalMart's proposed program would be contrary to the statutory directive of KRS 278.285(3) since that a self-directed program is essentially an opt-out. Secondly, LG&E/KU state that KRS 278.285 provides that the Commission may only consider and approve DSM programs proposed by a utility not by a commercial customer. LGE&E/KU also note the proposed benchmark of 15 million kWh per year in the aggregate ignores the regulatory restriction in 807 KAR 5:041 Section 9(2) that each point of delivery of electricity must be treated as an independent customer, and also ignores traditional ratemaking principles.[38]

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[36] *Id.*, at 4 – 6.

[37] *Id.*, at 12.

[38] *Id.*, at 16 – 17.

WalMart's initial brief further supports its recommendation that the Commission should reject the opt-out criteria proposed by LG&E/KU because they are insufficiently supported and results in discriminatory rates being paid by customers within similar rate classes. Specifically, WalMart challenges LG&E/KU's proposal to designate certain rate schedules as being energy intensive and, therefore, eligible for the DSM opt-out, while excluding other rate schedules. Further, WalMart asserts that LG&E/KU's proposed definition for the industrial opt-out will result in those customers in a rate class not allowed to opt-out being forced to pay for the cost of DSM programs while any customer allowed to opt-out will be exempt from that cost. WalMart recommends the Commission expand the availability of the opt-out to other rate schedules or, alternatively, adopt WalMart's alternative recommendation to allow those "non-industrial" customers the ability to implement self-directed programs.

MHC

The filed testimony of MHC focuses on the return of the collection of funds for low-income neighborhoods, the methodology used in calculating the benefit-cost measures of DSM programs and overall support for programs that address the specific needs of low and fixed income residential customers. MHC avers that areas where there is a higher percentage of low-income residences are the areas which are disproportionately in need of programs that lower energy use and control costs.

In addressing the methodology used in the benefit-cost analysis, MHC proposes including externalities. Externalities are defined as a side effect, and MHC suggests the side effects, or non-energy benefits, that result from lower energy use, such as improved air quality and improved health, should be included in the analysis.[39] MHC further proposes to distribute the DSM funds proportionally to the percentage of DSM program income received from a neighborhood. MHC states that neighborhoods with large numbers of multifamily housing tend to be low-income or protected classes, and suggests that a larger percentage of DSM funds come from these highly dense residential neighborhoods and that LG&E/KU should deliver DSM funds back proportionately.

MHC states that certain DSM programs ignore the technology gap in low-income households and provide rebates for appliances that are beyond the financial capability of low-income people and not used by landlords of lower-rent areas, potentially producing inequality. MHC further questions whether LG&E/KU fully studied the proposed programs and their related benefit-cost ratios because the gas impact was excluded from the studies.

In response to MHC's testimony, LG&E/KU filed rebuttal testimony stating that the two companies are committed to working with MHC and other low-income advocates and have a strong commitment to the WeCare Program. LG&E/KU note that the proposed DSM/EE program is smaller than in the past, with a smaller budget. This will reduce energy costs and thus benefit low-income and fixed-income customers who may have difficulty paying their energy bills. LG&E/KU's proposed DSM/EE programs increases the maximum allowable income for the WeCare program and allows master-metered multifamily buildings to qualify for WeCare, both of which will allow for more low-income customers to participate. LG&E/KU also address MHC's assertion that low-income areas have a larger proportion of older housing stock, making it imperative to invest in those

[39] Direct Testimony of Cathy Hinko (Hinko Testimony) at 13.

areas. LG&E/KU state that WeCare is the largest program in the proposed DSM/EE portfolio, with benefits flowing to low-income areas exceeding the DSM surcharge revenue collected from those areas, an outcome that should be favorable from MHC's perspective.

LG&E/KU disagree with MHC's suggestion to include externalities in the benefit-cost analysis, stating that MHC neither specified which externalities should be included nor addressed the possibility of negative externalities which might exceed the positive externalities MHC might want to include. In response to MHC's assertion that the programs may result in inequality, LG&E/KU state that while the program related to the technology gap, presumable the AMS offering, has not been as well subscribed in low-income areas as in others, about one-fifth of all AMS meters have been deployed in ZIP codes with high concentrations of low-income customers. Regarding MHC's assertion of inherent inequities in the appliance rebate program, LG&E/KU note that the appliance rebates are no longer included in the proposed DSM/EE Program.

In MHC's initial brief, the externalities, or non-energy benefits, are addressed again. Here, MHC states that the exclusion of these non-energy benefits skewed the analysis and understated the benefits associated with DSM/EE measures. MHC further argues that with this undervaluing, LG&E/KU may be ending certain DSM/EE programs that may offer a significant opportunity to reduce customer costs.[40] Moreover, MHC suggests failure to include externalities has a disproportionately negative impact on people in fair housing and public accommodation protected categories and may violate federal Fair Housing Act.[41] MHC requests that the Commission direct LG&E/KU to revise

[40] Initial Brief of Metropolitan Housing Coalition (MHC Brief) at 19.

their analysis to account for the non-energy benefits and supplement their filing with respect to programs proposed for termination or curtailment.[42]

MHC also questions the inclusion of the AMS pilot program in the DSM Mechanism and whether AMS metering is exempt from the statutory benefit-cost requirement. If the AMS program is to continue, MHC requests that LG&E/KU demonstrate that the benefits are greater than the costs. MHC further states that LG&E/KU's failure to provide such an analysis requires that the Commission disapprove the proposed program. MHC questions why the AMS program is allowed to continue when the entire residential class of LG&E/KU ratepayers finances a voluntary program that is available to a very small percentage of customers.[43]

MHC requests that the Commission direct LG&E/KU to commission a study to determine the amount of DSM funds coming from low-income neighborhoods, where the DSM funds are spent, and whether the funds are proportionally distributed so as to make the DSM/EE programs available, affordable, and useful to low- and fixed-income residential customers relative to their contribution to the program funding.[44] Finally, MHC notes its support of the WeCare and other DSM/EE programs and the proposed expansion of the DSM/EE offerings to industrial customers.

SUMMARY OF LG&E/KU'S POSITION

In their initial brief, LG&E/KU ask that the Commission approve the proposed DSM/EE Program Plan as filed. LG&E/KU contend the proposed programs are cost-

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[41] *Id.*

[42] *Id.*, at 7.

[43] *Id.*, at 28.

[44] MHC Brief at 26.

effective, developed in consultation with the Attorney General and customer representatives, consistent with each company's integrated resource plan, and do not prejudice or disadvantage customers.[45] LG&E/KU note that the proposed DSM/EE Program Plan is supported by three separate studies which demonstrate the technically and economically achievable DSM/EE potential across residential, commercial, and industrial rate classes.[46] LG&E/KU emphasize that the plan was developed in tandem with the DSM Advisory Group and, although there is not complete unanimity among the DSM Advisory Group participants, there appears to be a broad acceptance of the plan and approval is not contingent upon unanimity.

LG&E/KU also request approval of the proposed ROE for the DSM/EE Programs because it provides for positive financial rewards as KRS 278.285 intends. LG&E/KU stress that the statutory provisions allow for positive financial incentives to encourage DSM/EE investments. Therefore, LG&E/KU ask to continue the DSM Capital Cost Recovery component and recover and earn a return on the capital deployed through DSM/EE programs of 50 basis points above their most recently awarded ROE of 9.7 percent.

LG&E/KU address the intervenors, stating that the points raised critique the benefit-cost analyses or seek to alter either the DSM/EE programs or the administration of the programs. LG&E/KU stress that both critiques are contrary to statute and thus lend

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[45] Initial Brief of Louisville Gas and Electric Company and Kentucky Utilities Company (LG&E/KU Brief) at 2.

[46] The Cadmus Group, Inc conducted the studies. For the three studies, see the Application, Exhibit GSL-3 for the Residential and Commercial Energy and Efficiency Potential Study; Case No. 2014-00003 for the Industrial Sector DSM Potential Assessment for 2016-2035; and the Application, Exhibit GSL-2 for the DSM Program Review.

credibility to the proposed DSM/EE Program Plan. LG&E/KU state that the programs proposed by MHC and WalMart have little detail and no benefit-cost analysis and are programs which the Commission lacks the authority to approve. Finally, LG&E/KU request that the Commission approve the proposed industrial DSM/EE opt-out for industrial customers and reject WalMart's request to allow large commercial customers to opt out.

REPLY BRIEFS

ATTORNEY GENERAL

In his reply brief, the Attorney General reiterates that the proposed DSM/EE plan, when viewed in its entirety, is adequate. However, the Attorney General emphasizes the stakeholder process and compliance with KRS 278.285(1)(f), which specifies that one of the criteria in reviewing DSM programs is the extent of stakeholder involvement in and support of the proposed programs. In particular, the Attorney General notes that, although there were five meetings of the DSM Advisory Group in 2016 and 2017, there was no unanimous support for the proposed DSM/EE Program amongst the DSM Advisory Group participants, and that LG&E/KU did not state whether or not any of the participants' suggestions were even considered when developing the proposed DSM/EE Program.[47] The Attorney General states that compliance with KRS 278.285(1)(f) implies that LG&E/KU should provide insight into how input from the DSM Advisory Group is implemented so that the Commission can adequately gauge and consider the level of involvement of the other participants.

[47] Attorney General's Reply Brief at 1-2.

The Attorney General continues by discussing the degree of the Commission's authority in reviewing the DSM/EE Programs and expresses concern that LG&E/KU believe the Commission's role and authority under KRS 278.285 is narrow. The Attorney General reminds LG&E/KU of the Commission's broad discretion in determining the reasonableness of any DSM/EEE proposal and that the Commission can modify any program as necessary. The Attorney General closes his reply brief reiterating that if WalMart is allowed to opt out of the DSM/EE programs, a cost shift would occur among commercial customers; thus allowing the opt-out implies the Commission is rewarding one commercial customer and penalizing those commercial customers who are unable to opt out.

WALMART

In its reply brief, WalMart stresses that LG&E/KU fail to address the discriminatory impact of the opt-out. WalMart states that LG&E/KU's proposed opt-out is not consistent with Kentucky law, which requires rates to be fair, just and reasonable, while the proposal gives an unfair advantage to some customers over others.[48] WalMart avers that it is discriminatory to require some customers to bear the cost of the DSM/EE programs while other customers, who take service under the same rate schedules, do not bear the cost as a result of their energy usage differences.

WalMart also addresses the Attorney General's statement that cost shifting will occur if WalMart were permitted to opt out. WalMart states that cost shifting is inherent in an opt-out and is not unique to WalMart. Further, WalMart challenges the Attorney General's statement that all WalMart stores will opt out if given the choice. WalMart says

[48] Reply Brief of Walmart at 1 -2.

it, and presumably other eligible customers, would conduct a sound analysis of costs and benefits prior to making a definitive choice to opt out or to continue participation in company-sponsored DSM/EE programs.[49]

MHC

MHC's reply brief addresses the industrial opt-out provision and whether it should be expanded to include energy-intensive commercial customers. MHC notes WalMart's argument that energy-intensive commercial customers taking service under an industrial tariff should be eligible for the opt-out provision; MHC asserts that this dispute is an issue to be determined by the legislature and not by LG&E/KU or Commission.[50] MHC also responds to the points raised by the Attorney General and concurs with the issues identified regarding capacity valuation, the possible cost shifts associated with WalMart's request, and the need for more input and shared discussions between LG&E/KU and their DSM stakeholders. MHC again describes its request that avoided costs, specifically costs associated with greenhouse gas emission regulation and non-energy benefits, should be included in the benefit-cost analysis before any DSM/EE programs are curtailed or eliminated. MHC states that non-energy benefits are within the jurisdiction of the Commission and consideration of such benefits is essential in determining cost-effectiveness of the continuation of DSM/EE measures.

MHC concludes by requesting revised analyses not only regarding externalities, but also regarding the AMS program and whether the DSM/EE programs address specific

[49] *Id.*, at 3.
[50] Reply Brief of Metropolitan Housing Coalition (MHC Reply Brief) at 3.

needs of low- and fixed-income residents. Finally, MHC requests that the Commission approve the proposed DSM/EE plan for the continuation of the WeCare program.

LG&E/KU

LG&E/KU submit that the positions of the intervenors do not affect the Commission's approval of the DSM/EE application and that the proposed 2019-2025 DSM/EE Program Plan remains reasonable. Regarding the MHC's position, LG&E/KU state that the request for the Commission to consider non-energy benefits is statutorily prohibited and therefore should be declined. LG&E/KU contend that the benefit-cost analysis correctly excludes non-energy benefits and this exclusion is not selective or arbitrary, as MHC suggests.[51] In addition, LG&E/KU suggest that the Commission reject MHC's assertion that not accounting for non-energy benefits could violate the federal Fair Housing Act. LG&E/KU contend that no violation occurs as that statute prohibits discriminatory conduct only in the sale or rental of dwellings or in conjunction with real estate-related transactions, not utility service, and that inclusion of the non-utility benefits does not guarantee more DSM/EE funds will be deployed in MHC's preferred geographic areas. LG&E/KU note that the ultimate use of funds is a direct result of customer choice and participation, and will not necessarily conform to the preferred disposition of any one party.

LG&E/KU further request that the Commission reject MHC's request to require the companies to perform a study analyzing the impact of the proposed DSM/EE Program Plan on the low- and fixed-income customers, contending that such a study is unnecessary and will only increase DSM/EE costs. Finally, LG&E/KU request that the

[51] Reply Brief of Louisville Gas and Electric and Kentucky Utilities Company at 4.

Commission deny MHC's request to terminate the AMS Customer Offering as this offering is available to all customers, has low-income participation, and is performing well. Additionally, denying the request will be consistent with the Commission's denial of MHC's identical request made in Case No. 2014-00003.[52]

In response to the Attorney General, LG&E/KU claim that their valuation of avoided capacity costs in this case is consistent with their valuation in their application for AMS deployment, Case No. 2018-00005.[53] LG&E/KU aver that in Case No. 2018-00005, the avoided capacity cost was stated as a possible benefit of full AMS deployment if circumstances changed, not as a guaranteed benefit under any conditions.[54] LG&E/KU support the stakeholder process regarding the proposed DSM/EE Program Plan and contend that it has been adequate and sufficient under KRS 278.285(1)(f). Finally, LG&E/KU request the Commission reject WalMart's industrial opt-out and self-direct positions as they remain implausible and contrary to KRS 278.285.

DISCUSSION

In making our findings in this case, the Commission recognizes that, unlike prior LG&E/KU DSM cases in which the utilities were projecting capacity shortfalls which resulted in a positive avoided capacity cost, they now have a capacity surplus of approximately 100 MW, resulting in an avoided capacity cost of zero. The Attorney General asserts that with this level of surplus capacity, LG&E/KU might benefit from joining an RTO to participate in capacity market auctions, and he encourages the

[52] *Id.*, at 10.

[53] 2018-00005, *Electronic Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for Full Deployment of Advanced Metering Systems* (Ky. PSC Aug. 30, 2018).

[54] *Id.*, at 13.

Commission to require LG&E/KU to study and analyze the net benefits of RTO membership.[55] LG&E/KU have indicated that they are studying the issue of RTO membership and will advise the Commission of their analysis by the end of this year.[56] The Commission looks forward to reviewing the RTO analysis upon completion by LGE/KU.

The Attorney General also challenges LG&E/KU's capacity valuation of zero for DSM programs as being inconsistent with the positive capacity valuation they used earlier this year when requesting approval to install AMS meters.[57] The Commission finds that using a zero value for capacity is not inconsistent, since the study period covered by this DSM filing is 2019-2025, whereas the study period used in the AMS case was significantly longer, covering 2018-2040. Under the current facts, it is no longer reasonable to require LGE/KU's ratepayers to either bear the costs of any DSM programs that can reasonably be scaled back or eliminated, or to bear the costs of any studies to establish new DSM programs.

The Commission agrees with LG&E/KU's proposed DSM/EE program portfolio for 2016-2025, with one modification. Consistent with the Final Order in Case No. 2018-00005, the Commission finds that the cap on the pilot opt-in AMS program should be increased from 5,000 LG&E and 5,000 KU residential and small commercial customersto 10,000 LG&E and 10,000 KU residential and small commercial customers. The Commission affirms its findings in Case No. 2014-00003 that KRS 278.285(1)(h) expressly provides for special consideration of advanced residential metering programs

[55] Attorney General Brief at 3.

[56] LG&E/KU Response to Attorney General's Supplemental Data Request, Item 6.

[57] Attorney General Brief at 3-4.

independent of a benefit-cost analysis. As that Order also stated, in determining the reasonableness of DSM programs the Commission is not limited to a consideration of only the factors enumerated in the DSM statute but may consider other factors as well, such as the higher level of information available to customers to control their energy usage and their energy bills.[58] Allowing the AMS program to continue on a pilot basis with increased customer levels of participation will further LG&E/KU's ability to gather data on the benefits of AMS meters and customers' interest and acceptance of those meters. For these reasons, the Commission rejects MHC's request to terminate the program. Further, the Commission agrees with LG&E/KU's request to reduce the ROE to 10.2 percent for equity capital invested in DSM/EE programs. None of the intervenors opposed this request.

In evaluating the cost-effectiveness of the proposed DSM/EE programs, the Commission disagrees with MHC's recommendation to include the cost of non-energy factors and benefits. KRS Chapter 278 creates the Commission as a statutory administrative agency empowered with "exclusive jurisdiction over the regulation of rates and service of utilities."[59] The Commission has no jurisdiction over environmental impacts, health, or other non-energy factors that do not affect rates or service. Lacking jurisdiction over these non-energy factors, the Commission has no authority to require a utility to include such factors in benefit-cost analyses of DSM programs. As LG&E/KU correctly note, it does not follow from their citing in 2014 of the potential avoidance of environmental compliance costs in rates in support of the construction of a 10 MW solar facility that the

[58] Case No. 2014-00003, Final Order at 24.

[59] KRS 278.040(2).

Commission has jurisdiction in a DSM case to require an analysis of non-energy criteria such as environmental and health factors that have no impact on rates. MHC's claim that including externalities in the California tests would result in greater DSM benefits to residential customers is unpersuasive, and MHC cites to no instance in which the Fair Housing Act has been held to apply to utility rates or service.

LG&E/KU performed the California tests for the proposed DSM program suite utilizing estimates of the benefits and costs that would directly impact customers' bills, rather than attempting to include estimates of benefits and costs to society through changes in consumption patterns.[60] These scores were based upon zero avoided cost. The Commission has traditionally evaluated DSM effectiveness by focusing on the Total Resource Cost ("TRC") results. A TRC score of less than one indicates that the costs of the program outweigh the benefits. LG&E/KU's test results indicated that the TRC scores were greater than one for only the Nonresidential Rebates Program. All other DSM programs had TRC scores of less than one. Regarding the Demand Conservation programs, the TRC score is 0.00 for the Residential and Small Residential Program and 0.01 for the Large Nonresidential Program. Despite their test scores, the Commission recognizes that not only do these DSM programs add value to system reliability by enabling load reductions, but that LG&E/KU have large investments in the control switches used in these programs and that the cost to remove the switches outweighs the cost of the proposal to continue the programs in maintenance mode.[61] Therefore, the Commission finds that LG&E/KU should continue the Demand Conservation programs in

[60] Lawson Testimony at 17.

[61] LG&E/KU have a net capital investment of over $10 million. Huff testimony at 19.

maintenance mode with no new capital invested while the program is gradually phased out as the devices eventually fail to operate.

The Commission finds that LG&E/KU should continue offering the WeCare Program and agrees with the proposed elimination of the tier structure whereby a participant's incentive was based on the participant's annual energy consumption. Each participant now will be eligible to receive an average level of incentives. WeCare also will be modified to increase the maximum income requirement to 200 percent of the poverty level and allow master-metered multifamily buildings billed on nonresidential rates to qualify for the program. The WeCare program, which is specifically designed to serve the needs of low-income customers, represents more than half of LG&E/KU's proposed residential DSM budget. All of the LG&E/KU DSM programs are voluntary, and thus the programs' funds are dispensed in the areas where customers have requested to participate. MHC has presented no credible evidence to demonstrate that LGE/KU's DSM plan does not provide programs that are available, affordable, and useful to all customers as required by KRS 278.285(1)(g), or that DSM funds are being distributed in a discriminatory manner to the residential class of customers. Low-income customers receiving service from LG&E/KU are not a class of customers but, rather, are a subset of the residential class, just as middle-income and upper-income customers are all subsets of the same residential class. Thus, directing LG&E/KU to fund a study of the impacts of DSM programs on low-income customers has not been shown to be reasonable and would unnecessarily increase rates for all residential customers.

In reviewing the proposed two-year extension of the SEMP, the Commission recognizes that LG&E/KU made a commitment in the settlement reached in their last rate case to propose continuing the program. However, based on the SEMP having a TRC score of 0.30, the Commission finds that its costs as a utility resource exceed its benefits and it should be terminated.

The Commission finds that LG&E/KU's proposal to expand the availability of DSM programs to include industrial customers is reasonable. The proposal includes eliminating the current use of the NAICS Codes for defining industrial customers and adopting a new definition of industrial to be "nonresidential customers engaged in in activities primarily using electricity or gas in a process or processes involving either the extraction of raw materials from the earth or a change of raw or unfinished materials into another form or product."[62] In addition, industrial customers with energy-intensive processes will be able to opt out of the DSM programs if they have implemented cost-effective energy efficiency measures that were not subsidized by other rate classes. The Commission finds no merit in WalMart's claim that LG&E/KU's proposal violates the prohibition against undue discrimination in KRS 278.170(1) by excluding WalMart and other similarly situated customers from being able to opt-out of DSM programs.

The opt-out provision of the DSM statute provides that:

> The commission shall allow individual industrial customers with energy intensive processes to implement cost-effective energy efficiency measures in lieu of measures approved as part of the utility's demand-side management programs if the alternative measures by these customers are not subsidized by other customer classes. Such individual industrial customers shall not be assigned the cost of demand-side management programs.[63]

[62] Lovekamp Direct at 6.

[63] KRS 278.285(3).

Thus, the General Assembly has made a legislative determination that only industrial customers may elect to opt out of utility sponsored DSM programs, and the Commission must grant the opt-out if the industrial customer with energy-intensive processes implements cost-effective EE measures in lieu of those sponsored by a utility. A plain reading of the statute excludes from the opt-out any customer that is not industrial. WalMart, by its own admission, is a commercial customer, not an industrial customer. For example, WalMart's Motion to Intervene states that: 1) "WalMart is a national retailer of goods and services . . . ;" 2) "WalMart is a large commercial Customer . . . ;" and 3) "WalMart is a single commercial customer . . . ."[64] WalMart's proposal to expand the opt-out to all customers on certain designated rate schedules so "[t]his broad definition [of opt-out] would capture all of the Companies' industrial energy users, as well as all of their largest users in general,"[65] directly conflicts with the language of the DSM statute. The General Assembly did not authorize large energy users to opt out of DSM programs, irrespective of whether they have energy intensive processes.

LG&E/KU's proposed industrial opt-out is not discriminatory when considered in light of the controlling DSM statute. As a creature of statute, the Commission must enforce the provisions of KRS Chapter 278 as enacted by the General Assembly. Discrimination in rates is not prohibited per se. If it was, every utility could only have one schedule of rates and every customer would be charged the same rates. Rather, KRS 278.170(1) only prohibits rates or service that create either an "unreasonable" preference or advantage, or an "unreasonable" prejudice or disadvantage. Just as the General

[64] Walmart Motion to Intervene at 1-2.

[65] Baker Testimony at 11.

Assembly enacted KRS 278.030(3), authorizing a utility to create "suitable and reasonable classifications of its service, patrons and rates," the General Assemble enacted KRS 278.285(3), authorizing industrial customers with energy-intensive processes to opt out of DSM programs. Statutorily created differences in rates do not fall within the prohibition against unreasonable discrimination under KRS 278.170(1), and do not violate the requirement that rates be fair, just, and reasonable under KRS 278.030(1).

For all these reasons, the Commission finds that LG&E/KU have adequately reviewed the definition of industrial customers as directed in Case No. 2014-00003, and their proposed definition of industrial customer and the corresponding opt-out criteria is reasonable. The Commission applauds WalMart's innovation and implementation of DSM/EE programs tailored to its facilities; however the Commission finds no statutory authority to adopt WalMart's request for non-industrial customers with energy-intensive processes to have the ability to opt out if the customers implements a self-directed program.

The Commission recommends that LG&E/KU continue the stakeholder process through the DSM Advisory Group and strive to include recommendations and inputs from the stakeholders. These meeting should be more than informational, but entail fluid dialog between all vested parties.

SUMMARY OF FINDINGS

Having reviewed the record, and being otherwise sufficiently advised, the Commission finds that:

1. LG&E/KU's opt-in AMS programs should be modified to increase the customer cap from 5,000 LG&E and 5,000 KU residential and small commercial customers to 10,000 LG&E and 10,000 KU residential and small commercial customers.

2. LG&E/KU's SEMP is not cost effective as a utility resource and should be terminated.

3. All other provisions of LG&E/KU's DSM/EE Program Plans are reasonable and should be approved through 2025 unless subsequently modified by the Commission upon finding good cause.

4. LG&E/KU's request to reduce the ROE to 10.2 percent for the capital portion of the DSM/EE Program Plan is reasonable and should be approved.

5. The rates and charges approved for LG&E/KU as set forth in the appendices to this Order reflect the lower ROE, the reduced federal corporate tax rate under the Tax Cuts and Jobs Act, and the termination of the SEMP.[66]

6. LG&E/KU should continue encouraging participation in programs that help low-income customers to reduce energy consumption, thereby reducing monthly energy bills.

IT IS THEREFORE ORDERED that:

1. LG&E/KU's opt-in AMS programs are modified to increase the customer cap from 5,000 LG&E and 5,000 KU residential and small commercial customers to 10,000 LG&E and 10,000 KU residential and small commercial customers.

2. LG&E/KU's SEMP is terminated.

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[66] LG&E/KU's response to Staff's First Request for Information, Item 1.

3. All other provisions of LG&E/KU's proposed DSM/EE Program Plans are approved through 2025, unless subsequently modified by the Commission upon finding good cause.

4. LG&E/KU's request to reduce the ROE to 10.2 percent for the capital portion of the DSM/EE Program Plan is approved.

5. LG&E/KU shall continue encouraging participation in programs that help low-income customers to reduce energy consumption, thereby reducing monthly energy bills.

6. The proposed costs of the DSM/EE Program Plan shall be included in the LG&E/KU's DSM surcharge rates effective for service rendered on and after January 1, 2019.

7. The rates and charges in Appendix A, attached hereto, are fair, just, and reasonable for KU to charge for service rendered on and after January 1, 2019.

8. The rates and charges in Appendix B, attached hereto, are fair, just, and reasonable for LG&E to charge for service rendered on and after January 1, 2019.

9. Within 20 days of the date of this Order, LG&E/KU shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

10. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED

OCT 05 2018

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00441 DATED OCT 05 2018

The following rates and charges are prescribed for the customers served by Kentucky Utilities Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

DSM
DEMAND-SIDE MANAGEMENT COST RECOVERY MECHANISM

Rates RS, RTOD-Energy, RTOD-Demand, VFD	Energy Charge
DSM Cost Recovery (DCR)	$0.00048 per kWh
DSM Revenues from Lost Sales (DRLS)	$0.00006 per kWh
DSM Incentive (DSMI)	$0.00000 per kWh
DSM Capital Cost Recovery (DCCR)	$0.00046 per kWh
DSM Balance Adjustment (DBA)	$(0.00003) per kWh
Total DSMRC	$0.00097 per kWh

Rate GS	
DSM Cost Recovery (DCR)	$0.00035 per kWh
DSM Revenues from Lost Sales (DRLS)	$0.00026 per kWh
DSM Incentive (DSMI)	$0.00000 per kWh
DSM Capital Cost Recovery (DCCR)	$0.00007 per kWh
DSM Balance Adjustment (DBA)	$0.00025 per kWh
Total DSMRC	$0.00093 per kWh

Rate AES	
DSM Cost Recovery (DCR)	$0.00074 per kWh
DSM Revenues from Lost Sales (DRLS)	$0.00107 per kWh
DSM Incentive (DSMI)	$0.00000 per kWh
DSM Capital Cost Recovery (DCCR)	$0.00103 per kWh
DSM Balance Adjustment (DBA)	$0.00006 per kWh
Total DSMRC	$0.00290 per kWh

Rates PS, TODS, TODP, RTS, FLS, SPS, STOD, OSL	
DSM Cost Recovery (DCR)	$0.00029 per kWh
DSM Revenues from Lost Sales (DRLS)	$0.00023 per kWh
DSM Incentive (DSMI)	$0.00000 per kWh
DSM Capital Cost Recovery (DCCR)	$0.00010 per kWh

DSM Balance Adjustment (DBA)	$0.00003 per kWh
Total DSMRC	$0.00065 per kWh

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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00441 DATED OCT 0 5 2018

The following rates and charges are prescribed for the customers served by Louisville Gas and Electric Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

ELECTRIC SERVICE RATES

DSM
DEMAND-SIDE MANAGEMENT COST RECOVERY MECHANISM

	Energy Charge	
Rates RS, RTOD-Energy, RTOD-Demand, VFD		
DSM Cost Recovery (DCR)	$0.00060	per kWh
DSM Revenues from Lost Sales (DRLS)	$0.00008	per kWh
DSM Incentive (DSMI)	$0.00000	per kWh
DSM Capital Cost Recovery (DCCR)	$0.00077	per kWh
DSM Balance Adjustment (DBA)	$(0.00001)	per kWh
Total DSMRC	$0.00144	per kWh
Rate GS		
DSM Cost Recovery (DCR)	$0.00035	per kWh
DSM Revenues from Lost Sales (DRLS)	$0.00039	per kWh
DSM Incentive (DSMI)	$0.00000	per kWh
DSM Capital Cost Recovery (DCCR)	$0.00021	per kWh
DSM Balance Adjustment (DBA)	$0.00016	per kWh
Total DSMRC	$0.00111	per kWh
Rates PS, SPS		
DSM Cost Recovery (DCR)	$0.00063	per kWh
DSM Revenues from Lost Sales (DRLS)	$0.00055	per kWh
DSM Incentive (DSMI)	$0.00000	per kWh
DSM Capital Cost Recovery (DCCR)	$0.00012	per kWh
DSM Balance Adjustment (DBA)	$(0.00004)	per kWh
Total DSMRC	$0.00126	per kWh
Rates TODS, TODP, RTS, FLS, STOD, OSL		
DSM Cost Recovery (DCR)	$0.00018	per kWh
DSM Revenues from Lost Sales (DRLS)	$0.00006	per kWh

DSM Incentive (DSMI)	$0.00000	per kWh
DSM Capital Cost Recovery (DCCR)	$0.00012	per kWh
DSM Balance Adjustment (DBA)	$(0.00001)	per kWh
Total DSMRC	$0.00035	per kWh

GAS SERVICE RATES

DSM
DEMAND-SIDE MANAGEMENT COST RECOVERY MECHANISM

Rates RGS, VFD	Energy Charge	
DSM Cost Recovery (DCR)	$0.00202	per Ccf
DSM Revenues from Lost Sales (DRLS)	$0.00042	per Ccf
DSM Incentive (DSMI)	$0.00000	per Ccf
DSM Capital Cost Recovery (DCCR)	$0.00000	per Ccf
DSM Balance Adjustment (DBA)	$(0.00158)	per Ccf
Total DSMRC	$0.00086	per Ccf

Rate CGS, IGS, AAGS, SGSS, FT		
DSM Cost Recovery (DCR)	$0.00062	per Ccf
DSM Revenues from Lost Sales (DRLS)	$0.00010	per Ccf
DSM Incentive (DSMI)	$0.00000	per Ccf
DSM Capital Cost Recovery (DCCR)	$0.00000	per Ccf
DSM Balance Adjustment (DBA)	$0.00003	per Ccf
Total DSMRC	$0.00075	per Ccf

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