

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DEMAND-SIDE MANAGEMENT FILING OF EAST)	CASE NO.
KENTUCKY POWER COOPERATIVE, INC.)	2019-00059

ORDER

On January 30, 2019, East Kentucky Power Cooperative, Inc. (EKPC), filed proposed tariff sheets setting forth revisions to its demand-side management (DSM) programs through the Commission's electronic Tariff Filing System. EKPC proposed to discontinue the following five DSM programs: (1) DSM-4c, Heating, Ventilation and Air Conditioning (HVAC) Duct Sealing Program; (2) DSM-5, Commercial & Industrial Advanced Lighting Program; (3) DSM-6, Industrial Compressed Air Program; (4) DSM-8, Appliance Recycling Program; and (5) DSM-9, ENERGY STAR® Appliances Program. EKPC also proposed to revise the following six DSM programs: (1) DSM-2, Touchstone Energy Home Program; (2) DSM-3a, Direct Load Control Program – Residential; (3) DSM-3b, Direct Load Control Program – Commercial; (4) DSM-4a, Button-up Weatherization Program; (5) DSM-4b, Heat Pump Retrofit Program; and (6) DSM-7, ENERGY STAR® Manufactured Home Program.

The proposed tariffs contained an effective date of March 1, 2019. On February 27, 2019, the Commission entered an Order finding that the proposed tariffs to discontinue the five DSM programs are reasonable and allowing those programs to be discontinued on March 31, 2019. The Commission further found that an investigation is necessary to determine the reasonableness of the proposed revisions to the remaining

six DSM programs and suspended those tariffs for one day and allowed them to become effective on March 2, 2019, subject to change prospectively, and established a procedural schedule to review the reasonableness of the proposed tariffs. EKPC responded to two rounds of discovery from Commission Staff. There are no intervenors in this proceeding. On May 24, 2019, EKPC filed a motion to submit the case for a decision based on the existing record. The case now stands submitted for a decision based on the evidentiary record.

EKPC'S CURRENT DSM PROGRAM PORTFOLIO¹

EKPC's DSM portfolio now includes the following programs:

1. DSM-2, Touchstone Energy Home
2. DSM-3a, Direct Load Control Program – Residential
3. DSM-3b, Direct Load Control Program – Commercial
4. DSM-4a, Button-up Weatherization Program
5. DSM-4b, Heat Pump Retrofit Program
6. DSM-7, ENERGY STAR® Manufactured Home Program
7. DSM-10, Community Assistance Resources for Energy Savings Program

In 2018, EKPC performed an extensive review of its DSM programs.² This review included input from its DSM Steering Committee, a committee of EKPC and owner-member cooperative (Owner-Member) staff, and consultants with the purpose to reevaluate the cost-effectiveness and need for the existing DSM programs. For this

¹ EKPC DSM Filing. DSM 10 – Community Assistance Resources for Energy Savings Program (CARES) is not included in this filing because no changes are being proposed.

² EKPC DSM filing.

evaluation, EKPC commissioned GDS Associates (GDS) to conduct a cost-effectiveness review for all possible DSM program measures. In evaluating the cost-effectiveness of the DSM programs, EKPC instructed GDS to evaluate cost-effectiveness based upon the total resource cost measure, to utilize appropriate technical resource manuals from states and regions for energy savings and regional implementation costs, use EKPC's avoided energy and capacity cost in PJM Interconnection, LLC, and use EKPC's end-use Owner-Member saturation survey results.³ EKPC also retained a DSM programming expert, Mr. John Farley, to further evaluate the programs, refine GDS's results with updated EKPC specific costs and electricity savings, and assist in the proposed revisions.⁴ The results of this review as well as recommended changes were then presented to and approved by EKPC's executive leadership and the Owner-Members' Chief Executive Officers.⁵

Based on EKPC's DSM review, it proposed and the Commission accepted the discontinuance of five DSM programs designated as DSM-4c, DSM-5, DSM-6, DSM-8, and DSM-9. EKPC's review also resulted in proposed modifications to six DSM programs as follows:

(1) DSM-2, Touchstone Energy Home Program. This program allows for incentives for new homes to be constructed with energy efficiency in mind. It has been determined that the current minimum efficiency eligibility standard of a 15 percent improvement in energy use is no longer cost-effective and EKPC proposes to increase the minimum to 30 percent. The tariff provides an incentive of \$750 for a home that either

³ *Id.*

⁴ *Id.*

⁵ *Id.*

scores a home energy rating system (HERS) of 75 or better or if the homeowner completes a Prescriptive Path checklist that is equivalent to a 75 HERS tested home.

(2) DSM-3a, Direct Load Control – Residential. Currently, EKPC has over 33,000 direct load control (DLC) switches installed on water heaters and air conditioners. The GDS Study identified that new switch installations on water heaters is no longer cost-effective; however, DLC installation on air conditioners or heat pumps is still cost-effective. EKPC proposes to no longer install DLC devices on new water heaters or any pool pumps. EKPC also proposes tariff modifications for the installation of Wi-Fi-enabled thermostat under the Bring Your Own Thermostat option.

(3) DSM-3b, Direct Load Control – Commercial. EKPC proposes to modify the commercial tariff to match the residential tariff, including adjusting the annual incentive payment frequency to match the DLC residential program.

(4) DSM-4a, Button-up Weatherization Program. The Button-up program incentivizes members to improve the energy efficiency of a home's shell. The GDS Study identified that only air-sealing measures and significant ceiling insulation improvements were cost-effective. The proposed modification only offers incentives for these cost-effective improvements and offers only a single incentive.

(5) DSM-4b, Heat Pump Retrofit Program. This program is designed to incentivize members to convert their primary heating source to a more efficient electric heat pump. The proposed modifications include a change in the eligibility criteria and the addition of mini-split heat pump technology as an eligible primary heat source.

(6) DSM-7, ENERGY STAR® Manufactured Home Program. Designed to incentivize members to purchase an ENERGY STAR® certified manufactured home,

EKPC currently pays the incentive to the Systems Building Research Alliance (SBRA) instead of the owner-member or their member. SBRA, in turn, pays the manufacturing plant for the upgrade to the energy star standards and the home retailer for installing a heat pump. This multiple step process has proven to be cumbersome, and owner-members prefer that the incentive be paid directly to the purchasing member. The proposed modification changes to whom the incentive is paid and lowers the incentive to \$1,150 to reflect the new lower cost of implementing the upgrades.

The refined assumption Total Resource Cost-Effective (TRC) scores for the DSM programs to be modified are as follows:⁶

<u>Program</u>	<u>TRC Score</u>
DSM-2, Touchstone Energy Home	1.37
DSM-3a, Residential DLC – Thermostat	1.96
DSM-3a, Residential DLC – AC Switches	1.60
DSM-3b, Commercial DLC – Thermostat	1.70
DSM-3b, Commercial DLC – Switches	3.42
DSM-4a, Button-Up Weatherization	1.01
DSM-4b, Heat Pump Retrofit – Ductless Mini Split	1.04
DSM-4b, Heat Pump Retrofit – SEER 14	1.46
DSM-4b, Heat Pump Retrofit – SEER 15	1.39
DSM-7, ENERGY STAR® Manufactured Home	1.49

DISCUSSION AND FINDINGS

EKPC recovers DSM costs through base rates and not a surcharge mechanism, and thus there is no true-up mechanism or periodic updates to DSM expenditures. DSM costs include incentives, administration costs, and lost revenues, and EKPC states that it does not wish to implement a DSM surcharge at this time.⁷ EKPC notes that sufficiency

⁶ *Id.*

⁷ EKPC's Response to Staff's First Request for Information (Staff's First Request), Item 6.

of its rates is a determination that is made as part of a base rate case application, and the current proposal to modify its DSM programs still results in rates that are fair, just, and reasonable.⁸ EKPC notes that in its last base rate case application, Case No. 2010-00167,⁹ the level for DSM expenditures embedded in base rates was \$6.0 million.¹⁰ EKPC's 2017 DSM expenditures were just over \$10.5 million; therefore, the current rate structure does not include \$4.5 million of DSM expenditures.¹¹ EKPC states that the cooperative considered filing a base rate case in 2018 but was able to maintain financial integrity and postpone such a case for three years or so due to the passage of the federal Farm Bill and the Rural Utility Service refinancing pilot program.¹² EKPC is proposing no change to its base rates in conjunction with this filing and believes that a reduction in base rates to reflect the decreased DSM expenditures would be inconsistent with the rates approved in the 2010 rate case and would pressure EKPC towards considering a new rate case.¹³ EKPC estimates that the total cost of the revised program to be \$4.6 million annually.¹⁴

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that EKPC's proposed DSM modifications are reasonable and should be approved. The use of current data and assumptions for updated TRC scores as well

⁸ *Id.*

⁹ Case No. 2010-00167, *Application of East Kentucky Power Cooperative, Inc. For General Adjustment of Electric Rates* (Ky. PSC Jan. 14, 2011).

¹⁰ EKPC's Response to Staff's First Request, Item 6

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ EKCP's Response to Staff's Second Request for Information, Item 1.

as evaluation by EKPC and their Owner-Members illustrates a thorough examination of the DSM Programs. However, including the DSM costs in base rates is not transparent to the member-customer and, since all member systems pay the same, subsidization between the member systems may exist. Therefore, EKPC is to file testimony in its next base rate case supporting the value of the DSM programs to EKPC and to the reasons why DSM expenses should continue to be in base rates and not in a rider specific to each member system and subject to an annual true-up.

IT IS THEREFORE ORDERED that:

1. EKPC's proposed Tariff Sheets for DSM-2, DSM-3a, DSM-3b, DSM-4a, DAM-4b, and DSM-7 are approved.

2. EKCP shall provide testimony in its next base rate case supporting the value of DSM upon EKPC's system and the reasons why DSM expenses should continue to be in base rates and not in a ride specific to each member system.

3. Within 20 days of the date of entry of this Order, EKPC shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the revisions approved herein and reflecting that they were approved pursuant to this Order.

4. This case shall be closed and removed from the Commission's docket.

By the Commission

ENTERED
NOV 26 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2019-00059

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