

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC ANNUAL COST RECOVERY	)	CASE NO.
FILING FOR DEMAND SIDE MANAGEMENT BY	)	2022-00398
DUKE ENERGY KENTUCKY, INC.	)	

ORDER

On November 15, 2022, Duke Energy Kentucky, Inc. (Duke Kentucky) electronically filed its Annual Status Report, Adjustment of the Demand Side Management (DSM) Cost Recovery Mechanism, and Amended Tariff Sheets for Gas Rider DSMR and Electric Rider DSMR. Duke Kentucky stated in its application that it met with the Residential Collaborative<sup>1</sup> and the Commercial & Industrial Collaborative,<sup>2</sup> and that the members in attendance agreed with the application.

On December 7, 2022, the Commission entered an Order suspending the effective date of the proposed tariff for five months, up to and including May 14, 2023. Duke Kentucky responded to one round of discovery. There are no intervenors. On January 20, 2023, Duke Kentucky filed a statement requesting that this case be submitted for a decision based upon the written record. The case now stands submitted for a decision based on the written record.

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<sup>1</sup> The Residential Collaborative members in attendance were Lawrence Cook (Office of the Kentucky Attorney General), Mary Cook-Reneau (Boone County), and Trisha Haemmerle (Duke Energy).

<sup>2</sup> The Commercial & Industrial Collaborative members in attendance were Lawrence Cook (Office of the Kentucky Attorney General), Christine Baker (Kenton County Schools) and Trisha Haemmerle (Duke Energy).

## LEGAL STANDARD

KRS 278.285(1) authorizes the Commission to review and approve the reasonableness of DSM programs proposed by any utility under its jurisdiction. The statute lists multiple factors the Commission can consider when determining the reasonableness of the DSM programs. The listed factors in KRS 278.285(1) are:

- (a) The specific changes in customers' consumption patterns which a utility is attempting to influence;
- (b) The cost and benefit analysis and other justification for specific demand-side management programs and measures included in a utility's proposed plan;
- (c) A utility's proposal to recover in rates the full costs of demand-side management programs, any net revenues lost due to reduced sales resulting from demand-side management programs, and incentives designed to provide positive financial rewards to a utility to encourage implementation of cost effective demand-side management programs;
- (d) Whether a utility's proposed demand-side management programs are consistent with its most recent long-range integrated resource plan;
- (e) Whether the plan results in any unreasonable prejudice or disadvantage to any class of customers;
- (f) The extent to which customer representatives and the Office of the Attorney General have been involved in developing the plan, including program design, cost recovery mechanisms, and financial incentives, and if involved, the amount of support for the plan by each participant, provided however, that unanimity among the participants developing the plan shall not be required for the commission to approve the plan;
- (g) The extent to which the plan provides programs which are available, affordable, and useful to all customers; and

(h) Next-generation residential utility meters that can provide residents with amount of current utility usage, its cost, and can be capable of being read by the utility either remotely or from the exterior of the home.

KRS 278.285(1) also states the factors listed are not exhaustive, the Commission can consider anything that will help determine if the programs are reasonable.

DUKE KENTUCKY DSM PROGRAM PORTFOLIO<sup>3</sup>

The portfolio of DSM programs offered by Duke Kentucky were originally approved in Case No. 2012-00085<sup>4</sup> and amended in subsequent annual DSM filings. Duke Kentucky's DSM portfolio, for which the costs are recoverable through the DSM Cost Recovery Rider mechanism, includes the following programs through June 30, 2022:<sup>5</sup>

1. Low Income Services Program;
2. Residential Energy Assessments Program;
3. Residential Smart \$aver® Efficient Residences Program;
4. Residential Smart \$aver® Energy Efficient Products Program;
5. Smart \$aver® Prescriptive Program;
6. Smart \$aver® Custom Program;
7. Power Manager® Program;
8. PowerShare®;
9. Low Income Neighborhood;

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<sup>3</sup> Application, paragraph 15

<sup>4</sup> Case No. 2012-00085, *Application of Duke Energy Kentucky, Inc. for an Energy Efficiency Cost Recovery Mechanism and for Approval of Additional Programs for Inclusion in its Existing Portfolio* (Ky. PSC June 29, 2018).

<sup>5</sup> This Application serves as the annual true-up of the fiscal year ended June 30, 2022, and therefore covers the portfolio of programs in effect July 1, 2021, through June 30, 2022.

10. My Home Energy Report;
11. Non-Residential Small Business Energy Saver Program;
12. Non-Residential Pay for Performance;
13. Peak Time Rebate Pilot Program.<sup>6</sup>

The application contained brief descriptions of each program, a review of the status of each program, and information on any changes made to the programs. Due to the COVID-19 pandemic, most programs were negatively impacted from shutdowns and safety concerns of customers and program staff from Duke Kentucky's previous annual filing.<sup>7</sup> However, between the 2020-2021 program year and the 2021-2022 program year, the overall load impact was significantly higher due to restrictions being lifted as well as Duke Kentucky implementing new marketing materials to reassure its customers that safety is the utility's top priority. Duke Kentucky's updated language states "Safety is a priority. We are taking precautions for the safety of our customers and workers including: asking about the health of the home's occupants prior to appointments, wearing protective equipment, practicing social distancing on-site, and limiting in-home contact as much as possible."<sup>8</sup>

Key modifications for the 2023-2024 programs noted in the application include that for the Residential Smart \$aver program, beginning in 2023, all residential central air

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<sup>6</sup> Case No. 2019-00277, *Electronic Application of Duke Energy Kentucky, Inc. to Amend its Demand Side Management Programs* (Ky. PSC Apr. 27, 2020), Order.

<sup>7</sup> Case No. 2021-00424, *Electronic Annual Cost Recovery Filing for Demand Side Management by Duke Energy Kentucky*. Duke Kentucky's Response to Staff's First Request for Information (filed Dec. 13, 2021), Item 2.

<sup>8</sup> Duke Kentucky's Response to Staff's First Request for Information (Staff's First Request) (filed, Dec. 22, 2022), Item 3.

conditioners and air source heat pump systems will be required to meet new minimum energy efficiency standards of no less than a 15 Seasonal Energy Efficiency Rating (SEER) in the southeast including the state of Kentucky. In addition, the new standards require an increase in the heating efficiency of air source heat pumps heating seasonal performance factor (HSPF). The minimum HSPF will be 8.8 HSPF compared with the 8.2 HSPF required by the current standard, which went into effect in 2015.<sup>9</sup> These changes will require Duke Kentucky to adjust eligibility criteria to remain cost effective. The eligible minimum SEER level will be adjusted to SEER 16 and the Program will pay incentives based on the operating status of the equipment being replaced and the efficiency level of the new equipment.<sup>10</sup>

Additionally, Duke Kentucky is currently proposing to eliminate the Peak Time Rebate (PTR) Pilot DSM Program in Case No. 2022-00251.<sup>11</sup> Duke Kentucky received Commission approval in Case No. 2021-00424 to expand the PTR pilot program to research the impact of an increase to the credit received when a customer reduces their usage due to a critical peak event (CPE) during the summer of June through September 2022.<sup>12</sup> This study will include two new control groups, one at the current rate of \$0.60 per kilowatt-hour (kWh) reduced and the other at a credit that is twice as much, or \$1.20 per kWh reduced. Duke Kentucky anticipated that the information from this research will be available in August of 2023 when the Evaluation, Measurement, and Verification

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<sup>9</sup> Application, paragraph 21.

<sup>10</sup> Application, paragraph 22.

<sup>11</sup> Case No. 2022-00251, *Electronic Application of Duke Energy Kentucky, Inc. to Amend its Demand Side Management Programs* (Ky. PSC Aug. 15, 2022)

<sup>12</sup> Case No. 2022-00251, *Electronic Application of Duke Energy Kentucky, Inc. to Amend its Demand Side Management Programs* (Ky. PSC Dec. 27, 2022), Order

(EM&V) report is filed. Currently, Duke Kentucky is requesting no budget dollars for the program for 2023-2024 program year but has stated that if the Commission requires any portion of the pilot to continue into the next fiscal year (July 2023 or later), a corresponding updated budget will need to be requested by the Company.<sup>13</sup> The Commission decision in Case No. 2022-00251 on whether or not to eliminate the PTR Pilot DSM Program is still pending.

### COST-EFFECTIVENESS

Duke Kentucky provided in Appendix A of its application the results of the cost-effectiveness tests performed on its individual residential and non-residential DSM programs. Regarding the Residential Programs, the results indicated that the total resource cost (TRC) for the residential low-income programs and the Peak Time Rebate Pilot Program were less than 1.0, indicating that both programs are not cost effective. For the Non-Residential Programs, all programs are shown to be cost-effective.

### COSTS AND COST ALLOCATION

Duke Kentucky's DSM revenue requirement, including projected July 1, 2023–June 30, 2024 program costs, lost revenues, and financial incentives is approximately \$7.677 million.<sup>14</sup> This level of expenditure, along with under-recoveries and over-recoveries from the prior period, results in a total DSM revenue requirement of approximately \$9.460 million, of which \$9.759 million is allocated to electric operations and (\$0.299) million is allocated to gas operations. The \$9.759 million net amount allocated to electric operations consists of a \$2.253 million under-recovery from the prior

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<sup>13</sup> Application, paragraph 96.

<sup>14</sup> Application, Appendix B at 1.

period and \$7.906 million of expected DSM program costs. The (\$299) thousand net amount allocated to gas operations consists of a \$471 thousand over-recovery from the prior period and \$172 thousand of expected DSM program costs.<sup>15</sup>

### DISCUSSION

The Commission would like to note that considering Case No. 2022-00251 is still pending, therefore, a decision regarding the continuation or termination of the PTR Pilot program will be deferred to that case. Additionally, if the program is to be continued, then Duke Kentucky will seek an amendment to its budget with the Commission, accordingly.

The Commission finds that the factors listed in KRS 278.285(1) are supported and the DSM rates for electric and gas service as set forth in the Appendix to this Order are reasonable and should be approved. Furthermore, the Commission has traditionally evaluated DSM effectiveness by primarily focusing on the TRC results. Therefore, when discussing Duke Kentucky's low-income programs, such results are not uncommon for low-income programs to not be cost-effective. The Commission has found that such DSM programs assist low-income customers in lowering their energy bill as well as the impact these programs have on Duke Kentucky's generation load.

The Commission finds that Duke Kentucky has adequately kept the Commission informed of the progress and status of its DSM programs by timely filing summary status reports on its programs. The Commission additionally finds that in addition to summary status reports currently filed, Duke Kentucky should continue to file with the Commission notices for (1) any DSM program once it reaches 95 percent of its budget during a fiscal year; and (2) any DSM program Duke Kentucky projects will exceed its budget by

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<sup>15</sup> Application, Appendix B at 4.

25 percent. Any notice filed for a budget overrun should include an explanation regarding the cause of the budget overrun. Finally, Duke Kentucky should continue the practice of not including DSM or energy-efficiency-related costs in base rates.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's proposed DSM programs and associated costs are approved effective the first billing cycle of the month following the issuance of this Order.

2. The DSM rates in the Appendix to this Order are approved.

3. Duke Kentucky shall comply with the requirements of the findings found herein.

4. In its next filing for Commission approval of its DSM programs, Duke Kentucky shall provide analyses of the impact of DSM charges on its electric and gas customers' bills, and detailed evaluations of the cost-effectiveness of its existing programs and any proposed programs in light of the attendant cost burdens to the residential and commercial classes.

5. Within 20 days of the date of this Order, Duke Kentucky 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.

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

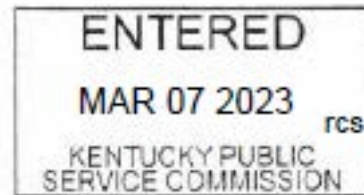


PUBLIC SERVICE COMMISSION

  
Chairman

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Vice Chairman

  
Commissioner



ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2022-00398 DATED MAR 07 2023

The following rates and charges are prescribed for the customers in the area served by Duke Energy Kentucky, Inc. 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.

Duke Energy Kentucky, Inc. – Electric and Gas Customers

Rate Schedule Riders	DSM Cost Recovery Rider (DSMR)
<u>Electric Rider DSM</u>	
Residential Rate	\$0.003351 per kWh
Non-Residential Rate	\$0.001987 per kWh
<u>Gas Rider DSM</u>	
Residential Rate RS	\$(0.004784) per Ccf

\*Debbie Gates  
Duke Energy Kentucky, Inc.  
139 East Fourth Street  
Cincinnati, OH 45201

\*Duke Energy Kentucky, Inc.  
139 East Fourth Street  
Cincinnati, OH 45202

\*Larisa Vaysman  
Duke Energy Kentucky, Inc.  
139 East Fourth Street  
Cincinnati, OH 45201

\*Minna Sunderman  
Duke Energy Kentucky, Inc.  
139 East Fourth Street  
Cincinnati, OH 45201