COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ANNUAL COST RECOVERY FILING FOR DEMAND SIDE MANAGEMENT BY THE UNION LIGHT, HEAT AND POWER COMPANY	)))	CASE NO. 2005-00402

ORDER

On September 30, 2005, The Union Light, Heat and Power Company ("ULH&P"), on behalf of its Demand-Side Management ("DSM") Collaborative, filed its application requesting to continue the DSM programs the Commission approved in Case No. 2004-00389.[1] It also requested approval of revised DSM gas and electric tariff riders, to be effective January 3, 2006.

BACKGROUND

On November 21, 2005, ULH&P filed an amended application in which it sought approval of a pilot Home Energy Assistance ("HEA") program "to be administered under the umbrella of ULH&P's current WinterCare program." ULH&P asked to recover the costs of the proposed HEA program through amended gas and electric DSM riders and requested that the Commission shorten the notice period for implementing those riders to 20 days as permitted by KRS 278.180(1).[2]

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[1] Case No. 2004-00389, The Annual Cost Recovery Filing for Demand Side Management by The Union Light, Heat and Power Company, Order dated February 14, 2005.

[2] By Order dated December 6, 2005, the Commission suspended ULH&P's DSM tariff riders for 2 months from their earliest possible effective date of December 11, 2005, up to and including February 10, 2006.

In its amended application, ULH&P requested to incorporate the recovery of the costs of the proposed HEA program into the residential energy charges and commodity charges through which it recovers the cost of existing DSM programs from electric and gas customers, respectively. Its proposed electric charge was $0.000265 per kWh and its proposed gas charge was $0.05 per Mcf, which it requested be implemented for the 12-month period immediately following approval by the Commission. As proposed, these charges were estimated to generate approximately $770,000.

ULH&P's amended application also noted that it was increasing its matching contribution for the 2005-2006 winter heating season to the WinterCare program which it has operated for several years. ULH&P states that, up to $25,000, it will match $1.00 for $1.00 the contributions made by its customers and employees.[3] ULH&P also announced that it was contributing an additional $25,000 in new funding for this winter's WinterCare program.

The Attorney General of the Commonwealth of Kentucky, through his Division of Rate Intervention, ("AG") requested intervention, which was granted by Order dated December 12, 2005. Staff issued one data request, to which ULH&P responded on December 19, 2005. On December 22, 2005, ULH&P filed an addendum to its application, in which it requested approval to implement a new pilot residential DSM program, the Personalized Energy Report program. Both the HEA program and the proposed Personalized Energy Report program were discussed at an informal

[3] ULH&P had previously provided a match of $1.00 for every $2.00 donated by its customers and employees.

conference held December 22, 2005, which was attended by ULH&P, the AG and Commission Staff ("Staff").

On January 17, 2006, ULH&P filed a second amended application, in which it revised its HEA proposal. The AG filed comments on ULH&P's revised HEA program on January 19, 2006.

ISSUES

At the informal conference, the AG expressed concern about two aspects of the proposed HEA program. First, he stated a strong preference for funding via a fixed monthly charge, rather than a usage-based charge as ULH&P had proposed. He stated that such a charge would be consistent with what he had agreed to for funding Louisville Gas and Electric Company's ("LG&E") and Kentucky Utilities Company's ("KU") most recently implemented HEA programs. The AG also noted that a usage-based charge, if implemented during the current heating season, would exacerbate the high heating bills being experienced by customers, particularly ULH&P's gas customers.

Second, the AG expressed concern about the magnitude of the proposed HEA program, citing again, the LG&E and KU HEA programs which are funded through a monthly charge of $0.10 per meter for residential customers. The AG, again voicing concerns about any increase to customers' heating bills, expressed a strong preference for funding ULH&P's HEA program through a fixed monthly charge no greater than the $0.10 being charged by LG&E and KU.

ULH&P indicated that it preferred to work to find common ground on the issues raised by the AG and attempt to come to an agreement on the funding for its HEA program. It expressed a desire to do so in order to comply with the intent of KRS

278.285(1)(f), which requires the Commission to consider, among other things, the extent to which the AG has been involved in developing the program and the degree to which he supports the program. ULH&P stated that, while its billing system would not be able to accommodate a per meter charge, it could accommodate a fixed monthly charge as an add-on to the monthly residential customer charges for both its electric and gas customers.

DISCUSSION

After the informal conference, ULH&P and the AG continued to discuss the proposed HEA program. Based on these discussions, on January 17, 2006, ULH&P filed a second amended application proposing a revised HEA program funded through a fixed monthly charge of $0.10 per customer. The revised program is expected to generate roughly $241,000, or slightly less than one-third the amount originally proposed by ULH&P. This second amended application also included additional information on the proposed Personalized Energy Report program and changes to the Commercial & Industrial High Efficiency Incentive program that ULH&P began offering in 2005.

Due largely to its desire to implement the HEA program as soon as practicable and, in part, because its DSM Collaborative had yet to reach full consensus on the Personalized Energy Report program, ULH&P filed a motion on January 19, 2006 to bifurcate the HEA program from the remainder of the issues pending in the case.

On January 19, 2006, the AG filed comments, voicing his agreement with and support for, the HEA program contained in the January 17, 2006 amended application.

The AG also stated that this support pertained only to the HEA program due to his agreement with ULH&P's motion to bifurcate it from the other issues in this case.

ANALYSIS

The severe impacts of high heating costs on customers this winter are unprecedented, but they are not unique to Kentucky customers. In light of the large increases in heating costs customers are experiencing, the Commission is encouraged by the efforts of both ULH&P and the AG to craft a program that attempts to address the needs of low-income customers while minimizing the rate impact on the customers who will be funding the program.

Since KRS 278.285 was expanded to include HEA programs, the Commission has sought to ensure that the costs of such programs were well supported and that the rate recovery of those costs was fair, just and reasonable. To date, all HEA programs implemented under the Commission's approval have resulted from settlement agreements in general rate cases. The utilities involved in those rate case settlements were LG&E and KU, as mentioned by the AG, and Columbia Gas of Kentucky. The AG was a party to all of these settlements.

In cases where HEA programs have been proposed, the Commission, while not authorized to require that the utility contribute to the program, has stated its preference that the utility should make a significant monetary contribution thereto. This preference is based on the belief that the utility will be more vigilant in its oversight of the program if it has a financial interest. It also reflects a preference that shareholders bear some of the costs of such programs in order to reduce the costs that are born by customers. By this Order we reiterate that preference and encourage ULH&P to consider making a financial contribution to its HEA program.

CONCLUSION

Due to circumstances largely beyond the control of utilities, their customers and regulators, heating costs, particularly for natural gas, are placing a significant burden on utility customers. In response to this situation, ULH&P proposed an HEA program for the purpose of providing financial assistance to low-income customers. After submitting its proposal, ULH&P worked with the AG to modify the program in order to address the AG's concerns with the original proposal. Based on our review and analysis of ULH&P's revised HEA proposal and, considering the provisions of KRS 278.285 regarding HEA programs and the support of the AG, we conclude that ULH&P's revised HEA program, as described in its January 17, 2006 amended application is reasonable and should be approved.[4] We likewise conclude that ULH&P's request to bifurcate the amended HEA program from the other issues in this case, which is also supported by the AG, is reasonable and should be approved.

TERM OF THE HEA PROGRAM

ULH&P, in consideration of the emergency circumstances facing low-income customers due to the unprecedented magnitude of this winter's wholesale gas prices, had initially proposed that the HEA program be implemented for a period of 12 months.

[4] Given the need for customer assistance in this time of unprecedented natural gas prices, we reach this conclusion even though ULH&P is not making a contribution to the funding of the program.

The AG, also mindful of these circumstances, expressed support for an HEA program of a 12-month duration in his January 19, 2006 written comments.

Had the matter of ULH&P's HEA program been resolved sooner, so that ULH&P could have implemented it by January 1, 2006, approving the program for 12 months, through the end of 2006, would have permitted the term of the program to coincide with the calendar year-end term of ULH&P's other DSM programs. However, approving this HEA program for 12 months, through January 2007, presents potential administrative problems that the Commission concludes are best avoided. Therefore, in order to synchronize the term of the HEA program with ULH&P's other DSM programs and, recognizing that ULH&P may seek to continue its HEA program beyond its initial pilot term, we will approve the HEA program for a period of 11 months, from February 1, 2006, through December 31, 2006. ULH&P may of course, at its discretion, propose to continue or discontinue the HEA program when it files its annual DSM application in September of 2006.

TARIFF ISSUES

In its initial HEA proposal, ULH&P planned to include the costs of the program in the usage-based tariff charges through which it recovers the costs of its existing DSM programs. However, under its second amended application, to which the AG agrees, it proposes to recover its HEA program costs through an increase of $0.10 in its residential customer charges, both gas and electric. In order to clearly delineate this recovery arrangement, ULH&P should file revised gas and electric residential tariffs which include its increased customer charges. It should also file revised gas and electric DSM tariff riders which include a new paragraph which states that the costs of the HEA program are being recovered through a $0.10 increase in its residential customer charges.

SUMMARY OF FINDINGS

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

1. ULH&P's motion to bifurcate the proposed HEA program from the other issues in this proceeding should be granted.

2. The HEA program in ULH&P's amended application of January 17, 2006, as agreed upon by the AG, is consistent with the provisions of KRS 278.285 regarding such programs and should be approved effective February 1, 2006 through December 31, 2006.

3. ULH&P should file revised residential electric and gas tariffs and DSM tariff riders as described herein showing their effective date and that they were authorized by this Order.

IT IS THEREFORE ORDERED that:

1. ULH&P's motion to bifurcate the HEA program from the remaining issues in this case is granted.

2. The HEA program contained in ULH&P's amended application of January 17, 2006 is approved for the period February 1, 2006 through December 31, 2006.

3. Within 20 days from the date of this Order, ULH&P shall file its revised tariffs consistent with the findings of this Order.

Done at Frankfort, Kentucky, this 31st day of January, 2006.

By the Commission

ATTEST:

Executive Director