

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ANNUAL COST RECOVERY FILING FOR)
DEMAND SIDE MANAGEMENT BY THE UNION) CASE NO. 2006-00426
LIGHT, HEAT AND POWER COMPANY D/B/A)
DUKE ENERGY KENTUCKY)

O R D E R

On September 29, 2006, The Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc. ("Duke Kentucky") filed its annual cost recovery filing for its demand-side management ("DSM") programs. All members of the Duke Kentucky Residential Collaborative and Commercial and Industrial Collaborative are in agreement with the application.¹ On December 19, 2006, the Commission granted Duke Kentucky's request for an extension beyond December 31, 2006 in order to continue implementing its current programs and to continue cost recovery for the existing programs until the Commission issues its Order in this case. On February 20, 2007, Duke Kentucky filed an amendment to its application in order to incorporate the PowerShare program

¹ The Attorney General of the Commonwealth of Kentucky ("Attorney General") had not expressed an opinion on the application at the time Duke Kentucky filed its original application in this proceeding. He filed comments on November 17, 2006 supporting the application and recommending Commission approval.

approved in Duke Kentucky's recent rate case² and to request approval to implement a High Efficiency School Incentive program.³

The original and amended filings include status reports for each of Duke Kentucky's DSM programs, a request to extend and increase funding for the Energy Education and Bill Assistance program ("Payment Plus") through 2009, and requests to extend the Personal Energy Report program through 2007, eliminate the Home Energy Assistance Pilot Program, double the funding for the Commercial and Industrial ("C & I") High Efficiency Incentive program, incorporate the costs of the revised PowerShare program within the DSM Cost Recovery Rider, implement a High Efficiency School Incentive program, an evaluation report by TecMarket Works for the Payment Plus program, and a revised DSM surcharge effective January 1, 2007 based on expenses reported for the period July 1, 2005 through June 30, 2006.

For electric customers, Duke Kentucky's proposed factor for residential customers is \$.000449 per kWh, a decrease from the current factor of \$.001080 per kWh. Duke Kentucky's proposed factor for distribution service for non-residential service customers is \$.001237 per kWh, an increase from the current factor of \$.000012 per kWh. And finally, Duke Kentucky's proposed transmission factor is \$.000150 per kWh, an increase from the current factor of \$0. For gas customers, Duke Kentucky's

² Case No. 2006-00172, An Adjustment of the Electric Rates of The Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc., Order dated December 21, 2006.

³ The amended application was filed with the consensus of all Commercial and Industrial Collaborative members with the exception of the Attorney General, who did not file any comments on the amendment.

proposed factor for residential customers is \$(.056222) per ccf, a decrease from its current factor of \$.0141952.

DISCUSSION

Energy Education and Bill Assistance (Payment Plus)

The Payment Plus program is designed to impact the participant's behavior as well as to generate energy conservation. The program has three parts: (1) Energy & Budget Counseling, (2) Weatherization, and (3) Bill Assistance. Participants who complete all the requirements under this program can potentially receive up to a total of \$500 in credits against their energy bills. The program is offered from October through March. Customers are tracked and evaluated after two years to see if energy consumption has dropped and bill paying habits have changed. The program's evaluation firm, TecMarket Works, recommends continuing the program and moving it from a pilot program to a permanent program. Duke Kentucky, however, is only requesting that the program be extended through 2009 in order to coincide with the expiration date of its other DSM programs.

The program has demonstrated that it can be cost effective, with a Utility Cost Test score of 1.45, a Total Resource Cost Test of 1.45, a Ratepayer Impact Test score of .32 and a Participant Test score that is infinite. Duke Kentucky is requesting approval to increase the funding for this program to \$150,000 from \$75,000 in order to allow Duke Kentucky to add up to 80 additional participants and to add follow-up energy education for past participants to encourage and increase energy saving behaviors. The Commission agrees with this approach and finds that the proposed modifications to this program should be approved.

C&I High Efficiency Incentive

This program provides incentives to small commercial and industrial customers to install high efficiency equipment in new construction or to retrofit or replace failed equipment with high efficiency equipment. This program is jointly implemented with a similar program in Duke Energy's Indiana territory in order to reduce administrative costs and to leverage promotion. Duke Energy is limiting the technologies offered in Kentucky to what is approved in its Indiana program.⁴ The Kentucky version could be expanded in the future, depending on approvals Duke Energy receives for this program in other states. Even with these restrictions, the results of the Kentucky program exceeded expectations; therefore, Duke Kentucky is requesting approval to increase the funding by 100 percent, increasing the cost to \$451,885 from its current level of \$225,943,⁵ in order to meet pent up demand in the marketplace. The Commission agrees with the request and finds that Duke Kentucky should increase the funding for this program.

High Efficiency School Incentive

Duke Kentucky proposes to extend its C & I High Efficiency Incentive Program to schools K-12 in the Duke Kentucky service area with the exception of those schools receiving transmission voltage service under Rate TT. Duke Kentucky is requesting approval of a \$1,000,000 budget for this program.

⁴ The Indiana program offers incentives for motor, lighting and cooling equipment.

⁵ Appendix D, pages 1 and 2 of 5.

The program will provide incentives to schools for the same measures included in the existing C & I High Efficiency Incentive Program. Participating schools will be able to take advantage of existing cost-effective C & I prescriptive rebates, will be provided information regarding Kentucky's Residential Comprehensive Energy Education program, and will be eligible to sign up for the PowerShare programs based on curtailable loads to earn additional savings for curtailing consumption.

The Commission believes Duke Kentucky's request for approval of this program is reasonable and finds that it should be approved through December 31, 2009 to align the timing of this program with the C & I High Efficiency Program.

Home Energy Assistance Program

Duke Kentucky has requested approval to discontinue the Home Energy Assistance Program ("HEA"). When questioned as to why Duke Kentucky was discontinuing this program, Duke Kentucky stated that the program was implemented to help customers while natural gas prices were high; now that prices have dropped the members of the Residential Collaborative voted to end the program. If the need arises again in the future, Duke can quickly re-implement the program, with Commission approval, since its billing system is already programmed to accept the charge.⁶ Since the Residential Collaborative has voted to end the program and the Attorney General has stated no objection, the Commission finds that the HEA should be discontinued.

⁶ Memo from Informal Conference of November 8, 2006, dated November 17, 2006.

PowerShare

On December 21, 2006, the Commission approved a Settlement Agreement in Duke Kentucky's recent electric rate case, Case No. 2006-00172, which provided that Duke Kentucky would recover its revised PowerShare costs as part of its non-residential DSM Rates. Pursuant to that Settlement Agreement, Duke Kentucky has amended its application in this proceeding to incorporate the revised PowerShare program into its DSM Recovery Rider.

PowerShare is the brand name given to Duke Kentucky's Peak Load Management Program. There are two product options offered for PowerShare - CallOption and QuoteOption. Both product options are voluntary and available only to customers able to provide a minimum of 100 kW load response. CallOption customers and Duke Kentucky will enter into an agreement whereby the customer, upon notification by the utility, will reduce demand or provide generation for purchase and Duke Kentucky will, in return, provide the customer a credit for the energy reduced or provided. The credit, pursuant to the Commission's Order in Case No. 2006-00172, will be based on the value of avoiding investment in combustion turbines. CallOption customers and Duke Kentucky will enter into an agreement whereby Duke Kentucky may notify the customer of a QuoteOption event, when the average wholesale market price for energy during the notification period is greater than a pre-determined strike price, and provide a price quote to the customer for each event hour. The customer decides whether to participate during the event period and notifies the utility. Duke Kentucky agrees to provide the participating customer an energy credit.

SUMMARY

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

1. Duke Kentucky has continued to keep the Commission properly informed of the progress and status of its DSM programs by filing the individual status reports.
2. Duke Kentucky's revised DSM surcharge factors are reasonable as they reflect the expected level of DSM program costs for the remainder of calendar year 2007 and the true-up of prior period DSM costs and revenues.
3. Duke Kentucky's Payment Plus program should be continued through 2009 and its Personal Energy Report program should be continued through 2007.
4. The increased funding for the Payment Plus program and the C & I High Efficiency Incentive program should be approved as proposed.
5. The request to discontinue the HEA program should be approved.
6. The request to implement the High Efficiency School Incentive program is reasonable and should be approved through December 31, 2009.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's revised DSM Tariff and the revised DSM surcharge factors are approved effective as of the date of this Order.
2. Duke Kentucky's Payment Plus program shall be continued through 2009 and its Personal Energy Report program shall be continued through 2007.
3. The increased funding for the Payment Plus program and the C & I High Efficiency Incentive program is approved.

4. Duke Kentucky's proposed High Efficiency School Incentive program is approved as proposed through December 31, 2007.

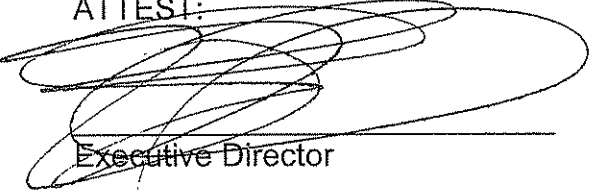
5. The request to discontinue the HEA program is approved.

6. Within 10 days from the date of this Order, Duke Kentucky shall file a revised DSM Tariff showing the date of issue and that it was issued by authority of this Order.

Done at Frankfort, Kentucky, this 15th day of May, 2007.

By the Commission

ATTEST:



Executive Director