COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE REQUEST OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR A DETERMINATION OF REASONABLENESS OF A NEW DEMAND SIDE MANAGEMENT PROGRAM, THE TOUCHSTONE ENERGY HOME PROGRAM	)	CASE NO. 2006-00547

ORDER

On December 14, 2006, East Kentucky Power Cooperative, Inc. ("EKPC") filed an application seeking approval to revise its Touchstone Energy Home Program (the "Program") tariff to extend the rebate provisions through the end of the Program. While the Program is currently scheduled to expire at the end of 2009, the rebate provision expired at the end of 2006.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), requested and was granted full intervention in this proceeding. He filed comments on January 8, 2007.

DISCUSSION

The Program is a conservation program that encourages the construction of more energy-efficient homes. To qualify for the Program a new home must meet Energy Star standards set by the United States Department of Energy. On January 14, 2004, the Commission approved the program which allows for EKPC's member systems to offer a rebate of up to $500 per home with EKPC matching the offered amount, up to a total rebate for the customer of $1,000.[1] The estimated incremental cost of a Touchstone Energy Home is over $2,000 more than a conventional home. The rebate program has helped to offset the cost to participants and to reduce the payback period of the initial investment in the Touchstone Energy Home.

EKPC states that the program has been very successful as the number of participants has grown from 44 at the end of 2004 to over 400 by the end of 2006. It also states that it paid rebates of $97,925[2] through the end of 2006, but estimates that the present value of its energy savings through that same period was $196,774.[3] In addition, it estimates that the present value future savings from 2007 through 2021 will be $1,422,115, for a total net present value savings of $1,618,893.[4] These sums are derived by adding EKPC's production, generation, transmission and distribution cost and capacity savings. While this program qualifies as a demand-side management program and recovery of the rebate amounts would increase the savings associated with the program, EKPC has not sought recovery due to the overall small dollar amount, However, these costs have been included in test-year base rates in EKPC's pending rate application.[5]

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[1] Case No. 2003-00481, The Request of East Kentucky Power Cooperative, Inc. for a Determination of Reasonableness of a New Demand Side Management Program, The Touchstone Energy Home Program. (Ky. PSC Jan. 14, 2006).

[2] See, Response to Commission Staff's First Data Request, Item 6.

[3] See, Response to Commission Staff's Second Data Request, Item 2.

[4] Id.

[5] Case No. 2006-00472, General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc.

When EKPC originally sought approval, in 2003, of the Program based on the Touchstone Energy Star standards, it included an evaluation of the Program using three of the standard California tests: the Ratepayer Impact Test, the Participant Test, and the Total Resource Cost Test. In conjunction with its 2006 IRP filing, EKPC again evaluated this Program using the same California tests. EKPC provided the assumptions and results of the evaluations from both the 2003 and 2006 applications in response to the Staff's Second Data Request in this proceeding. In the 2003 evaluation, all three California test results for EKPC were above 1.00, which indicates the expected benefits of the Program exceeded the expected costs for all three tests. In 2006, the three California test results for EKPC were mixed, with the Ratepayer Impact Test and Total Resource Cost Tests values above 1.00 showing that the benefits of the Program exceeded expected cost while the Participant Test value at 0.84, indicating that the expected costs exceeded the expected benefits.

EKPC also provided information concerning the actual costs incurred during the first 3 years of the Program. The information shows that the average rebate per participant was $273 in 2004, $227 in 2005, and $238 in 2006 for the Member Systems, with the same amount from EKPC. Total annual costs for EKPC, exclusive of the rebates, have steadily decreased on a per participant basis, with the average in 2004 being $698, in 2005 being $236, and in 2006 being $135.[6] EKPC's 2006 Integrated Resource Plan (Case No. 2006-00471) reflects these decreases.

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[6] See, Case No. 2006-00471, The 2006 Integrated Resource Plan of East Kentucky Power Cooperative, Inc.

While recognizing the obvious merits of such a program the AG expressed concern regarding EKPC's financial status, which the Commission investigated in Case No. 2006-00455[7] and which is still being reviewed in EKPC's pending rate case, Case No. 2006-00472. The AG maintains that EKPC's financial status is strained and that, as a result, EKPC has reported that it has delayed essential plant maintenance Citing these reasons, the AG states it would be unwise at this time for EKPC to incur additional expenses that are not absolutely essential to continuing operations. However, the AG also indicates that he would welcome the adoption and approval of this plan at such a time when EKPC's financial condition improves.

The Commission notes that while EKPC's tariff allowed for rebates up to $500 from the Member System with an equal match from EKPC, the average rebate was somewhat lower averaging between $238 and $273. In addition, the 2006 evaluation assumed that the rebate would be up to $250 from the Member System with an equal match from EKPC. EKPC has not proposed a change to the maximum rebate levels included in the tariff submitted in this proceeding.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the Program is reasonable and consistent with the provisions of KRS 278.285 and that the rebate provisions of the Program should be extended through 2009 with some modification. While we advocate the use of programs that are designed to promote energy efficiency, we find that the modeling provided herein and EKPC's current financial situation require a reduction at this time in

[7] Case No. 2006-00455, An Investigation of the Financial Condition of East Kentucky Power Cooperative, Inc.

the maximum amount that EKPC may rebate. Since EKPC has averaged payments of under $250 for the past several years and its last cost/benefit analysis modeled matching payments of $250, we find that EKPC should be authorized to contribute up to a maximum of $250 to match any participating distribution cooperative rebate. Should EKPC's financial circumstances improve, it may petition the Commission to increase its incentive payment.

The Member Systems are not parties to this proceeding; therefore, the Commission does not address their rebate programs. However, all participating Member Systems must have approved tariffs on file with the Commission setting forth the terms of their programs.

IT IS THEREFORE ORDERED that:

1. EKPC's request to extend the rebate provision of its Touchstone Energy Home Program through the end of 2009 is approved as modified herein.

2. Within 20 days of the date of this Order, EKPC shall file with the Commission its Touchstone Energy Home Program tariff. The tariff shall show the date of issue and that it was issued by authority of this Order.

Done at Frankfort, Kentucky, this 18th day of September, 2007.

By the Commission

ATTEST:

Executive Director