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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ANNUAL COST RECOVERY FILING	)	
FOR DEMAND SIDE MANAGEMENT BY	)	**CASE NO. 2007-00369**
DUKE ENERGY KENTUCKY, INC.	)	

ATTORNEY GENERAL'S COMMENTS

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ATTORNEY GENERAL'S COMMENTS

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (hereinafter the "Attorney General"), and tenders the following comments in the above-styled matter. Succinctly stated, the application should only be approved subject to the changes and disallowances discussed hereinafter.

I. Summary of Plan

Duke Energy Kentucky (hereinafter the "Company") requests a modification of its DSM Riders to reflect reconciliation of planned and actual expenditures, lost revenues, and shared savings. In support of that request, the Company has filed results of recent impact evaluation studies on several existing programs encompassed under the tariff. In addition, the Company seeks to continue the Power Manager program and to modify the Personalized Energy Report (PER) program from its current pilot status into a full program with recovery of lost revenues and the application of shared savings. The Application outlines the Company's existing Energy Efficiency Program offerings as consisting of the following:

- Residential Conservation and Energy Education,
- Residential and Home Energy House Call,
- Residential Comprehensive Energy Education Program (NEED),
- Program Administration, Development & Evaluation Funds,

- Payment Plus (formerly Home Energy Assistance Plus),
- Power Manager,
- Energy Star Products,
- Energy Efficiency Website,
- Personal Energy Report (PER),
- C & I High Efficiency Incentive (for Businesses and Schools), and
- PowerShare.

The Companies state that they evaluated each program's benefits versus costs using DSManager software which incorporates the tests outlined in the California Standard Practice Manual.

II. Program Description

A. Residential Conservation and Energy Education

This program is designed to assist LIHEAP participants meeting the income qualification level (income below 130% of the federal poverty level) reduce energy consumption and lower their energy costs. The program relies on the LIHEAP intake process to obtain referrals along with other community outreach programs. The program provides installation of weatherization and energy efficiency measures and, further, provides educational opportunities to participants to reduce consumption and energy costs.

The Company estimates that approximately 6000 customers within its territory may qualify for services under the program, and states that the program has provided services to approximately 1700 participants since its inception in 2000.

The Company reports the following energy impacts: (a) for the weatherization portion of the program, incremental participation of 22 for the period July 2006 to June 2007, with load impacts of 13,706 kWh and 4kW; and (b) for the refrigerator replacement portion of the program, incremental participation of 44 and load impacts of 47,916 kWh and 14kW.

The Company states that the program is structured such that homes requiring the most work and using the most energy per square foot receive the most funding. To accomplish this, the Company evaluates participants' homes and sorts them into two "tiers" based on the energy usage per square foot.

For tier 1 homes, the Company allows expenditures of up to $600.00 for energy saving measures, which include: furnace tune-up and cleaning, furnace replacement (accomplished through the Gas WX program, if repairs are over $500.00), venting check & repair, water heater wrap, pipe wrap, waterbed mattress cover, cleaning of refrigerator coils, cleaning of dryer vents, compact fluorescent light bulbs, low-flow shower heads and aerators, weather-stripping of doors and windows, some limited structural corrections that affect health, safety and energy (up to $100.00), and energy education.

For tier 2 homes, the Company uses the National Energy Audit Tool (NEAT) to determine the most cost effective measures for each particular home. Tier 2 homes also have available all tier 1 measures, but the provision of any additional measures is based upon the NEAT audit results. These additional measures must have a savings investment ratio (SIR) of greater than or equal to 1.5 and include (but are not limited to) the following: attic insulation, wall insulation, crawl space insulation, floor insulation, sill box insulation, and certain safety measures if they are included within the scope of work evaluated under the NEAT audit.

To increase the cost-effectiveness of the program, the Company and its collaborative received approval in Case No. 2002-00358 to include refrigerator replacement for owner occupied homes. Refrigerator replacement is made if testing determines the unit to be a high-energy consumption appliance. Participants who satisfy this criterion are given an Energy Star rated equivalent unit. Approximately 43% of refrigerators tested under the program are replaced. The evaluation of the weatherization portion of the program reports no additional findings during this period. However, the refrigerator replacement portion reports and overall average energy savings of 1,033 kWh per year. The program's cost effectiveness is based upon updated energy savings, reported in Application Appendix B.

B. Residential Home Energy House Call

Under this program, a qualified home energy specialist performs a walk-thru inspection of a participant's home, and recommends energy savings modifications based upon this analysis. The Company states that this inspection evaluates total home energy usage, air infiltration, examines existing insulation levels in various areas, and checks appliances and heating/cooling systems. The Company states that a comprehensive report is then mailed back to the participant within 10 business days. The report focuses on building envelope improvements along with low-cost and no-cost energy-saving improvements. The Company states that at the time of the audit a participant is provided with a kit, at no cost to the participant, which includes a low-flow showerhead, two aerators, electrical outlet gaskets, two compact fluorescent light bulbs, and a motion sensor night-light. Either the inspector or the homeowner can install the devices.

The Company states that 697 audits were performed for the period between July 2006 to June 2007. Participants audited represent approximately 3% of the total customers solicited as part of the Company promotional efforts. Nearly one-third of the program participants enrolled through the Company's web site enrollment process. The Company states that if the funds are available in the budget, one more direct mailing may be attempted in November 2007.

The Company reports that participant satisfaction for the program remains high with an average of 4.8 on a five point scale (a rating of five being the most satisfied), which is based upon a post audit survey of participants rating five components of the program. Approximately 40% of participants returned the survey card. No new evaluation of the program was conducted during this period, and the most recent program evaluation is used for this application. The program will be evaluated during the next fiscal period.

C. Residential Comprehensive Energy Education Program

This program, operated under subcontract by Kentucky National Energy Education Development (NEED), is designed to provide unbiased scientific, economic and environmental impact energy education to students and teachers in grades K through 12.

The Company states that it provides leadership training workshops and energy education materials to educators under the program to equip them to instruct their students, families and communities on methods to reduce energy consumption. The program has reached teachers and students in 57 schools in the territory's six counties, and has over 200 teachers currently enrolled.

The Company notes that the program is a cost sharing partner along with the Governor's Office of Energy Policy in a special grant from the U.S. Department of Energy to implement the Kentucky High Performance Sustainable Schools Program. This program is designed to develop energy smart schools and addresses issues such as: building energy efficiency improvements, including retrofits and new construction; school transportation practices; educational programs; procurement practices; and, linkages between school facilities and activities within the community.

The Company states that the program materials and curriculum were updated in 2004 to include an energy savings kit as a teaching tool and a survey instrument to better document the energy savings associated with the program. During the 2006-2007 school year, the Company distributed 235 kits to students.

The Company has not performed an update to its most recent impact evaluation. However, it notes that the program's cost effectiveness has decreased for this filing year due to increasing costs. The Company will perform an update to the program evaluation during the next fiscal period.

D. Program Administration, Development & Evaluation Funds

This program captures costs related to the design, implementation, program administration, program evaluation and program support of the Company's DSM collaborative and the Company's overall DSM efforts. The Company does not propose any change to how it collects or allocates funds under this program in this filing. The Company notes that every program is subject to impact review and evaluation every two years.

E. Payment Plus (formerly Home Energy Assistance Plus)

This program is designed to impact the behavior of participants to encourage on-time payment of utility bills, including the elimination of any arrearage and to generate energy conservation impacts.

The program consists of three parts: 1) Energy and budget counseling – which utilizes a combined education/counseling approach to help customers understand how to control energy usage manage their household bills. 2) Weatherization – program participants are required to participate in the education and weatherization as part of the normal Residential Conservation and Energy Education (low-income weatherization) program, unless the participant's dwelling was weatherized in past program years. 3) Bill Assistance – participants are provided with incentives in the form of credits to their accounts in exchange for completion of the energy, budgeting and weatherization aspects of the program. Participants will receive a $200.00 credit for completion of energy efficiency counseling, $150.00 for completion of budgeting counseling, and $150.00 for participation in the Residential Conservation and Energy Education (weatherization) program. The Company states that if all requirements are completed, a participant may receive up to $500.00 in credits. Approximately 205 customers participate in the program annually since some participants do not complete all the requirements or have already had weatherization services on their dwelling.

The Company states that it offers assistance under the program for the six winter months beginning each October. Participants are tracked and the program evaluated after two years to see if energy consumption has dropped and whether bill payment habits have changed.

Over the last five years, the Company has monitored participants' energy savings and arrearage and payment practices, and compared them to a control group with similar arrearages and incomes. The evaluation indicates that the program is effective at both saving natural gas and reducing arrearages. The Company notes that its evaluation firm recommended continuation of the program and that copies of this evaluation were provided in the 2006 filing.

The Company notes that the Commission approved continuation of the program in May 2007 with an annual cost of $150,000 per year through 2009. The Company notes that by expanding this program, it will add an additional 80 participants annually beginning in the fall of 2007. Follow-up educational reinforcement will take place for all participants beginning in the fall of 2007. The cost-effectiveness results indicate that the program is cost effective as designed.

F. Power Manager

The Power Manage program is designed to reduce demand by controlling residential air conditioning during peak demand events in the summer months. The Company accomplishes this by attaching a load control device to the customer's outdoor compressor/condenser unit allowing the Company to cycle the unit off and on when demand levels are at peak. At the time of installation, program participants receive financial incentives based upon the cycling option selected. The following options are available: Option A – a participants' air conditioner is cycled as required to obtain a 1 kW reduction in demand. Option B – a participants' air conditioner is cycled as required to obtain a 1.5 kW reduction in demand. The incentive for Option A is $25.00 per year and for Option B is $35.00 per year.

The Company states that the cycling of a participant's outdoor unit has minimal impact upon the operation of the system and on the comfort of the participant's dwelling. The load control device has built-in safeguards to prevent short cycling of the system. The system will always run the minimum amount of time required by the manufacturer but the system will run less.

The Company states that 2,587 participants enrolled in 2006, with 1,958 switch installations completed from those enrollments. Total cumulative participation in the program is 6,888 switches. The Company notes that installations for 2007 were intentionally less than projected due to issues with paging, installation, operations and signaling. The Company notes that these issues were addressed in 2007 so that the average load reduction realized was 1.04 kW as reported in the evaluation provided in appendix B.

The Company seeks Commission approval to continue the program for an additional five years.

G. Energy Star Products

This program is designed to encourage consumers' purchase and use of energy star devices by providing market incentives and support through participating retailers. Initially, the program is focused on compact fluorescent lights (CFLs) and torchiere lamps. However the Company notes that as technologies change, other devices may be incorporated into these efforts.

The Company states that the program addresses two barriers to use of these products: cost, and retailer participation. Ccost barriers are addressed by providing incentives to customers toward the purchase of CFLs ($2.00 per bulb) and torchieres ($20.00 per torchiere). The retailer participation barrier is addressed through education and in-field sales support (signs, advertisements, etc.). Additionally, the Company coordinates its' efforts with national Energy Star initiatives such as "Change a Light, Change the World" promotion. In order to reduce costs and maintain program cost effectiveness, the Company employs special campaigns at various times throughout the year to promote the purchase and use of these devices rather than a year round approach. The Company states that during the filing period it had a total of five promotional events which resulted in the sale of 48,823 CFLs and 737 torchieres. The Company's evaluation showed additional hours of use resulting in additional savings.

H. Energy Efficiency Website

This program is designed to allow customers to assess their energy usage and receive recommendations on energy efficiency via a Company-created website. Tools on the website allow customers to access energy efficiency information and tips, perform bill analysis, and also allow a customer to perform an on-line energy "audit" based on responses to questions regarding their dwelling and family characteristics.

To encourage website usage, the Company offers an incentive by mailing an energy efficiency starter kit to customers, consisting of: a low flow showerhead, kitchen faucet aerator, bathroom faucet aerator, a 15 and 20 watt CFLs, a shrink fit window sealing kit, a roll of foam weatherstripping, and electrical switch and outlet gaskets. The Company states that between its introduction in June, 2006 up through June 2007, 203 kits have been mailed to customers.

The Company's evaluation indicates that given its costs, the program is cost effective.

I. Personal Energy Report (PER)

This program is designed to provide customers with a customized energy report which will enable participants to better manage their energy costs. The report is based upon customer responses to a 14-question survey seeking information such as dwelling age, number of occupants, types of fuel used for cooking, and heating and cooling. When this survey is returned, the Company prepares a report providing information to customers which includes: a month-to-month comparison of electric and/or gas usage, predictions of the customer's usage based on the 95th percentile weather conditions (extreme hot/cold conditions) and 5th percentile weather conditions (mild conditions), a trend chart showing electrical and/or gas usage by kWh/cf by month, a bill comparison of Duke Energy vs. the average national electric and/or gas rate, a breakdown of the usage in the customer's dwelling, a description of the budget billing program, and customized energy tips. The Company states that the customized tips are based upon the answers to the survey questions.

The Company also provides a follow-up survey with a sample segment of customers to evaluate the program. As this program is a pilot program, the Company also sent energy efficiency starter kits to 25% of participants to test the efficacy of the kit. The Company likewise performs a follow-up survey with a segment of kit recipients to determine whether the provided measures were installed and the extent of any savings.

The Company states that the pilot program had 9,059 participants, of which 2,810 were provided with the energy efficiency kits. Results of the Company evaluation indicate the program is cost effective. The Company estimates savings of 204 kWh per kit and states that follow-up surveys of intended customer actions revealed 658 kWh of additional savings; however, Duke Energy projects that only 20% of these savings will actually be achieved.

J. C & I High Efficiency Incentive (for Businesses and Schools)

This program is designed to provide incentives for small C & I customers to install energy efficient equipment in applications involving new construction, retrofits and replacements. Projects under this program encompass high efficiency lighting, HVAC equipment and motors along with other energy efficient technologies as appropriate.

The Company provides incentives through third-parties (contractors, retailers) based on its cost-effectiveness model, but projects are limited by a 50% high-end limit of measure cost. The Company limits incentives to $50,000.00 per facility per calendar year in an effort to serve more customers.

The Company applied for Commission approval to expand the program to include schools in the fall of 2006 and the Commission approved the expansion in May 2007.

The Company reports that during the filing period, 12,742 light fixtures were installed, 20 HVAC units were installed, and 4 motors were installed. The Company states that it will perform an evaluation of the program in the first quarter of 2008. The Company reports data entry errors and differences in the methods used to estimate energy savings impacted the evaluation so that tracked savings do not match savings estimated in the evaluation or those contained in the planning estimates. Evaluation results are reported in appendix F.

K. PowerShare

This program is designed to provide participants with the opportunity to voluntarily reduce their demand in response to peak events, using two options.

Under CallOption, a customer agrees, upon notification by the Company, to reduce usage or provide generation for purchase by the Company. Each time the Company exercises its option under the agreement, the Company will provide the customer with a credit for the energy reduced at a market based price. If available, the customer may elect to buy through the reduction at a market based price. Only customers able to provide a minimum of 100 kW load response qualify for CallOption.

Under QuoteOption, the customer and the Company agree that when the average wholesale market price for energy during the notification period is greater than a predetermined strike price, the Company may notify the customer of a QuoteOption event and provide a price quote to the customer for each event hour. The customer will decide whether to reduce demand or provide generation to the Company during the event. If a customer decides to do so, they will notify the Company and provide an estimate of the customer's projected load reduction or generation. Each time the Company exercises the Option, the Company will provide the customer with a credit. There are no premiums since customer reductions are voluntary. Only customers with a minimum of 100 kW load response qualify for QuoteOption.

The Company reports evaluation results in appendix G and estimates that 1,144 kW of peak load impact resulted from the program during its 2007 events.

III. Attorney General's Comments

The Attorney General applauds the Applicants' initiative; however, the Attorney General does wish to express a few reservations with the proposed programs which he believes should be addressed by the Commission prior to any adoption and/or approval of the application.

A. General Comments

Although the majority of the reported programs are not subject to re-approval by the Commission in this filing, the Attorney General's comments will address all programs and not just those advanced by the Company for re-approval.

First, it appears that the Company's portfolio is heavily weighted toward low income customers. The Company currently operates three programs which are targeted toward low income customers, including: 1) the Residential Conservation and Energy Education, 2) the Refrigerator Replacement Program (operated under the Residential Conservation and Energy Education Program but listed separately for recovery purposes), and 3) the Payment Plus (formerly Home Energy Assistance Plus). The Application states that, the total budget for these three programs is approximately $750,000.00.[1] This represents approximately 32% of the total DSM budget of $2,371,136.00.[2] However, it appears that under these programs only 431 customers[3] on average are served annually, out of the 137,313 total residential customers[4] the Company serves. Thus, less than one-half of one percent of this subset of the residential class consumes 32% of the Company's DSM budget. Further, the impacts from these programs, reported by the Company as 61,612 kWh (18kW) in savings[5], is minimal when compared to the Company's other offerings. Since ratepayers are being forced to invest $12.00 for every kWh ($41,667.00 per kW) claimed as saved under the program, these programs thus do not appear to offer an adequate return of the ratepayers' scarce resources. The Attorney General is concerned about this trend going forward, especially in light of the Company's recent request to add an additional low income program in the form of a second HEA program. DSM programs are intended to reduce or shift demand. The focus of these programs do not appear to adequately address those goals in a cost effective manner despite the Company's assertions.

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[1] Please reference the Application, Appendix J, Page 1.

[2] Please reference the Application, Appendix J, Page 1.

[3] See Application, Page 8 and Page 20.

[4] See Company Responses to the First Data Requests of the Attorney General, No. 1.

[5] See Application, Page 6.

Second, the Company's portfolio contains multiple variations of auditing programs. The Company offers audits of various types under the following programs: 1) Residential House Call 2) Energy Efficiency Website, and 3) Personalized Energy Report. While the budget for each of these programs is distinct, they all offer to provide customers with estimates of their energy usage based upon a visit to the customers home, and responses to a written or web-based survey. The total budget for these programs is approximately $248,406.00.[6] The Application did not contain a breakdown of the expenses associated with the individual programs. However, some expenses associated with the programs should be common to all three and should be examined as part of a more thorough program review to ensure that expenses are not duplicative. Additionally, while these programs are offered to all residential customers, only 7% of residential customers took advantage of the programs offered. The Attorney General suggests that these programs be reviewed to ensure that adequate notice of these programs is given to customers. Further, in consideration of the Company's claimed impact of 1,650,946 kWh (516 kW) in savings[7], these programs offer the potential for greater cost effective savings than nearly any other program other than its Energy Star Products Program, with a return on forced ratepayer investment of $0.15 per claimed kWh saved ($466.00 per kW). Clearly, these programs offer a better return on ratepayer investment and the Company should be encouraged to focus more of the ratepayer's limited funds in this area.

The Attorney General does express concern regarding the nearly exclusive use of engineered savings estimates by the Company. While the use of engineered estimates may be necessary, the Company should be required to verify the claimed savings against actual data.

[6] See Application, Appendix J, Page 1.
[7] See Application, Page 6.

While the Company may claim that this exercise would be of limited value and not cost effective, it is essentially already performing a similar task under it Personalized Energy Report Program. Under that program, the Company examines a participant's bill, and prepares a report on usage and trending information to the participant. As this information would clearly reflect whether customer usage drops as a result of employed measures under the Company's DSM programs, this information should be examined with a representative sample being taken to ensure that engineered estimates have some basis in reality.

Finally, the Application does not adequately reflect costs of third-party administration of the Company's programs. The Company tracks costs for design and implementation of its programs along with costs related to the administration, evaluation and support of the Company's DSM offerings under a line item for the Program Administration, Development and Evaluation Funds. However, it appears that costs for third-party administration of programs is captured and reported under the individual program. The Attorney General states that this makes a meaningful review of program administration costs difficult, at best. While the Company's internal administration costs appear to be reasonable, there is no opportunity to examine costs of third-party administrators, as they are rolled into the program costs without being broken out. This means that it is impossible to determine the amount of funds actually distributed to participants in the form of incentives or services, and those funds retained by the third-party as "administrative costs." While other cases have capped certain of these fees at 10% of the total program budget, there is no opportunity to judge if a similar fee cap is appropriate in this case. The Commission should require the Company to breakout any third party costs so that an examination of their reasonableness may be accomplished.

B. Program Comments

1. Residential Conservation and Energy Education

The Company estimates that approximately 6000 customers within its territory ***may*** qualify for services under this program and states that the program has provided services to approximately 1700 participants since its inception in 2000.

The Company reports impacts of the program at page 6 of the Application under the description "Low Income." While it appears from the data that the Company averages approximately 226 homes per year in both areas of the program, the Company reports that participation in the weatherization portion of the program for the period between July 2006 to June 2007 was *only 22 households*.[8] The Company reports load impacts of 13,706 kWh and 4kW for the weatherization portion of the program.[9]

For tier 1 homes, the Company allows expenditures of up to $600.00 for energy saving measures. For tier 2 homes, the Company allows measures in addition to those provided in Tier 1 based upon the cost effectiveness of the measure as determined by the NEAT audit. These additional measures must have a savings investment ratio (SIR) of greater than or equal to 1.5 up to $4000.00 per measure and include (but are not limited to) the following: attic insulation, wall insulation, crawl space insulation, floor insulation and sill box insulation and furnace replacement. It is obvious that these are not minor repairs and ratepayers should not be expected to finance what are essentially extensive home improvement projects.

The Attorney General states that the extensive renovation services provided under this program are more properly addressed through existing social services agencies, which the

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[8] See Application, Page 6, Table 1.
[9] See Application, Page 6, Table 1.

Company is not. As similar services are already provided through federal programs, it does not appear that these extensive renovation services are warranted. Although the Company notes that the federal program limits amounts spent on these measures,[10] the provision of such extensive renovation services under the guise of saving energy is unreasonable. Additionally, as these services are available to only an extremely limited number of ratepayers,[11] this program does not appropriately distribute forced ratepayer contributions in an equitable fashion. Finally, since the proposed budget for the weatherization portion of the program is approximately $500,000.00, it is clear that the low energy savings from this program do not justify the forced ratepayer investment in this program going forward.

The Company states that participation in the refrigerator replacement portion of the program was ***only 44 households*** [12] for the period between July 2006 to June 2007 (it is not clear from the table whether these households are separate and distinct from the 22 households served under the weatherization program). The Company reports load impacts of 47,916 kWh and 14kW for the refrigerator replacement portion of the program.[13] At a cost of $100,000.00 to replace 44 refrigerators, this program does not appear to justify the forced ratepayer investment.

Additionally, the Attorney General expresses concern regarding the evaluation of the refrigerator replacement portion of this program. It should be noted that the Company's evaluation firm, Morgan Marketing Partners (MMP), is primarily a marketing company. Additionally, it appears that MMP actually designed the program offered by the Company.[14] It

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[10] See Company Responses to the First Data Requests of the Attorney General, No. 3.
[11] See Application, Page 8. The Company estimates that only 6,000 customers out of its 137,313 residential customers may be eligible for benefits under the program.
[12] See Application, Page 6, Table 1.
[13] See Application, Page 6, Table 1.
[14] See Company Responses to the First Data Requests of the Attorney General, No. 15

seems an obvious conflict of interest to employ the program's designer to evaluate the program's results. Additionally, in its responses the Company notes that MMP subcontracts the engineering estimates and calculations required to engineering firms.[15] Quite simply, the Company and ratepayers would be better served if the evaluation of this program's results was performed by an independent third-party engineering firm that is qualified to perform the calculations, and who does not have an interest in favorable results.

2. Residential Home Energy House Call

Concerning this specific program, the Attorney General offers no comments other than those addressed as part of the general comments concerning the Company's audit programs and the use of engineered savings. This program appears to be typical of the type offered by most utilities in Kentucky and it is suggested that the Company focus any future efforts on increasing the number of program participants, as these programs represent the potential for the most cost-effective energy savings.

3. Residential Comprehensive Energy Education Program (NEED)

While the Attorney General agrees that efforts to inform the public regarding energy and climate change issues are important, the efficient use of ratepayer funds is equally important. To that end, the Attorney General questions the reasonableness of the Companies' continued efforts regarding school outreach.

In the application, the Company states that "[i]t is intended that these students will also share this information with their families and reduce consumption in their homes." [16] The Company assumes that school children also significantly influence consumption behavior of

[15] See Company Responses to the First Data Requests of the Attorney General, No. 15
[16] See Application, Page 14.

their parents and families. However, the Companies offer no data to support this assumption. The Attorney General respectfully disagrees with this assumption, and states that decisions such as the purchase of major appliances, light bulbs, etc. are not likely ones in which a child can significantly influence parental behavior. Further, while informing children of the need to "turn off lights" when they leave a room is perhaps of minimal benefit, these efforts have little effect upon energy consumption. While this program consumes $81,500.00 of ratepayer funds,[17] there are no verifiable energy reductions associated with the program.[18] Thus, these efforts are more properly characterized as ratepayer funded "goodwill" efforts. The program claims to disseminate useful information to children, but it is misleading to characterize the proposed program as disseminating "technical" information to school children rather than a "goodwill" effort on behalf of the Company. Simply stated, is not clear how much "technical" information regarding issues such as energy generation, consumption and its effects on climate change can be absorbed by the average k-12 child. These are difficult concepts even for adults. Such efforts would, by necessity, be confined to simple relatively generic statements, such as turning off lights when you leave the room and, as such, are not truly "technical" in nature. It will be many years before children participating under the program will be Company customers and, therefore, the use of ratepayer funds to "educate" these future consumers is an unproductive use of those scarce funds. Any benefit derived is related more to increased goodwill to the Company as there are little or no energy savings resulting from the program. Therefore, the Attorney General does not recommend this program be continued going forward.

[17] See Application, Appendix J, Page 1.
[18] See Application, Page 6, Table 1.

4. Program Administration, Development & Evaluation Funds

Concerning this specific program, the Attorney General offers no comments other than those addressed as part of the general comments concerning the Company's DSM programs.

5. Payment Plus (formerly Home Energy Assistance Plus)

The Company notes that the cost-effectiveness results are provided in the appendices and indicate that the program is cost effective as designed. The Attorney General respectfully disagrees. A re-examination of the evaluation results reported in case no.2006-00426 reveals that the evaluation was primarily concerned with customer satisfaction and bill payment/arrearage issues with little focus on energy savings (only 13 pages of the 75 page report deals with the evaluation of energy savings). The Attorney General strongly encourages the Commission to re-examine the evaluation report submitted in case no. 2006-00426 as it appears that, quite simply, this program more than likely achieves any of its claimed energy savings primarily from the weatherization portion of the program[19] and all other aspects of the program are merely efforts by the Company to increase its cash flow through the reduction of its arrearages. In fact, the evaluation report actually noted *increases* in energy consumption by participants and notes that "[n]one of the Pilot participants were successful at reducing their electrical consumption over the long-term"[20] Significantly, the Company acknowledges this lack of electrical savings by its clear omission from the current report.[21] Similarly, the report notes that while participants receiving weatherization services generally experienced a decrease in the consumption of natural gas, those who did not receive weatherization actually experienced an increase in consumption,[22] thus

[19] Case No. 2006-00426, Appendix A, Page 44.
[20] Case No. 2006-00426, Appendix A, Page 40.
[21] See Application, Page 20.
[22] Case No. 2006-00426, Appendix A, Page 44.

supporting the Attorney General's assertion that the weatherization portion is responsible for any energy savings associated with the program. This program seems to be primarily focused on budget counseling and arrearage elimination which should **NOT** be the primary focus of a DSM program. Budget counseling services are primarily a social service activity and should be accomplished by the appropriate agency and **NOT** accomplished with forced ratepayer contributions. Clearly, if the Company's DSM focus is on energy savings, then a referral to its weatherization services programs would accomplish this goal without the need for expenditures for budget counseling. The Attorney General recommends that this program be modified to eliminate the use of ratepayer funds for any budget counseling services.

6. Power Manager

Incentives are provided to the customer at the time of installation. It is asserted that that the cycling of a participants' outdoor unit has minimal impact upon the operation of the system and on the comfort of the participant's dwelling and that the load control device has built-in safeguards to prevent short cycling of the system. The Company states that the system will always run the minimum amount of time required by the manufacturer but also states that the system will run less, which seems to be contradictory.

Although this program does have some benefit to the Company, the benefits to ratepayers are non-existent. The controls provided under the program are utilized *only* an average of *22 hours per year spread over 6 days on average*.[23] Additionally, participating customers will see very little, if any, Kwh savings as a result of load management with the switch option. This is clearly indicated by the Company's report which does not assign any kWh savings to this

[23] See Company Responses to the First Data Requests of the Attorney General, No. 43

program.[24] Simply put, if this program were truly needed by the Company to offset capacity increases, then the number of control hours/days utilized by the Company would be well over the current average of 22 hours over 6 days per year. While this program *may* have an effect on capacity, any impact would merely shift required increases in generation capacity to a later time and would not eliminate demand increases.

Clearly, when compared to the program cost, this program is not cost effective from a ratepayer standpoint. With a proposed budget of $875,000.00, this program consumes *nearly 40%* of the Companies' proposed DSM budget while generating a mere 3.3 MW reduction in demand. Simply stated, this program simply does not generate enough energy savings to offset the $875,000.00 investment by ratepayers.

Therefore, the Attorney General does not recommend this program be approved going forward and further recommends the current program be ended as expeditiously as possible.

While the Commission has previously approved similar programs for other electrical utilities, the Attorney General would note that these programs typically have high program costs with little or no savings to the ratepayers that fund them. Further, any claimed reductions in demand are illusory as the demand is merely shifted to a later time. While there are numerous claims of reductions to capacity, these claims are not usually borne out by the Company's IRP filings with the Commission. The Attorney General states that the funds consumed by the programs could be better utilized in the expansion of programs with greater potential for energy reductions.

7. Energy Star Products

Concerning this specific program, the Attorney General offers no comments other than

[24] See Application, Page 6, Table 1.

those addressed as part of the general comments concerning the Company's programs and the use of engineered savings. This program appears to be typical of the type offered by most utilities in Kentucky and it is suggested that the Company focus any future efforts on increasing the number of participants in the program as these programs represent the potential for greater energy savings.

8. Energy Efficiency Website

Concerning this specific program, the Attorney General offers no comments other than those addressed as part of the general comments concerning the Company's audit programs and the use of engineered savings. This program appears to be typical of the type offered by most utilities in Kentucky and it is suggested that the Company focus any future efforts on increasing the number of participants in the program as these programs represent the potential for greater energy savings.

9. Personal Energy Report (PER)

Concerning this specific program, the Attorney General offers no comments other than those addressed as part of the general comments concerning the Company's audit programs and the use of engineered savings. This program appears to be typical of the type offered by most utilities in Kentucky and it is suggested that the Company focus any future efforts on increasing the number of participants in the program as these programs represent the potential for greater energy savings.

10. C & I High Efficiency Incentive (for Businesses and Schools)

Concerning this specific program, the Attorney General offers no comments other than those addressed as part of the general comments concerning the Company's programs and the use of engineered savings. This program appears to be typical of the type offered by most utilities in Kentucky and it is suggested that the Company focus any future efforts on increasing the number of participants in the program.

11. PowerShare

Concerning this specific program, the Attorney General offers no comments other than those addressed as part of the general comments concerning the Company's programs and the use of engineered savings. It is suggested that the Company focus any future efforts on increasing the number of participants in the program as these programs represent the potential for the most cost-effective energy savings.

IV. Conclusion

For the reasons outlined hereinabove, the Attorney General recommends the Commission approve the Company's application but Order them to incorporate the suggestions and modifications discussed herein.

Respectfully submitted,

JACK CONWAY
ATTORNEY GENERAL OF KENTUCKY

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CERTIFICATE OF SERVICE AND NOTICE OF FILING

I hereby give notice that this the 24th day of March, 2008, I have filed the original and ten copies of the foregoing Attorney General's Comments with the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 and certify that this same day I have served the parties by mailing a true copy of same, postage prepaid, to those listed below.

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