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VIA OVERNIGHT DELIVERY

April 3, 2008

Ms. Stephanie Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

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APR 04 2008

PUBLIC SERVICE
COMMISSION

Re: Case No. 2007-00369

Dear Ms. Stumbo:

Enclosed please find an original and twelve copies of the Motion to Amend the Procedural Schedule and the Reply to the Attorney General's Comments of Duke Energy Kentucky in the above captioned case.

Please date-stamp the extra two copies and return to me in the enclosed envelope.

Sincerely,

Anita M. Schafer
Senior Paralegal

cc: Certificate of Service

**BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION**

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APR 04 2008

PUBLIC SERVICE
COMMISSION

In The Matter Of:

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

**DUKE ENERGY KENTUCKY, INC.'S REPLY TO THE ATTORNEY
GENERAL'S COMMENTS**

Now comes Duke Energy Kentucky, Inc., ("DE-Kentucky"), with support of members of the Residential Collaborative¹ and hereby respectfully submits its Reply to the Attorney General's Comments in the above-styled proceeding filed on March 24, 2008 ("Comments"). DE-Kentucky was surprised at the nature of the remarks made in the Attorney General's comments. Members of the Attorney General have attended meetings of the DSM Collaborative for a decade and have been instrumental in developing the programs which are now criticized in the Attorney General's Comments. All of the decisions made regarding DE-Kentucky's DSM programs have come with the full input of the collaborative members, including the Attorney General's office.

The Attorney General's Comments describe numerous concerns and recommendations that, if followed, would significantly modify or terminate parts of certain of DE-Kentucky's demand side management ("DSM") programs, as well as completely eliminate DE-Kentucky's Power Manager program. In nearly every instance, the Attorney General's criticisms are based upon inaccurate assumptions and interpretation of data as well as misunderstandings of the programs themselves.

I. General Comments

In its Comments, the Attorney General expresses several general criticisms of DE-Kentucky's DSM programs. First, the Attorney General is critical of the number of low income program offerings, indicating that such programs do not offer an adequate return for ratepayers. Moreover, the Attorney General expresses concern that the aforementioned inadequate "return" on low income programs is becoming a trend.² In support of this claim, the Attorney General states that the programs consume approximately 32% of the total DSM program budget, but only serve approximately 431 residential customers and alleges that rate-payers are being "forced to invest \$12.00 for every kWh... claimed as saved under the program."³

The Attorney General's criticisms are based upon incorrect assumptions and analysis of the facts. The concern that DE-Kentucky's DSM programs are "heavily weighted toward low income" is a matter of interpretation and opinion. DE-Kentucky offers low income programs for several reasons. First, the low income residential customer class has limited resources to finance improvements in energy efficiency due to an inability to obtain funds. DE-Kentucky's low income programs are designed to overcome those challenges in a fair and equitable manner. Second, low income customers also pay the DSM Rider and therefore should be able to share in its benefits. From an equity perspective, it makes sense to offer programs targeted to low income customers since those customers are in the greater need of assistance. Third, it is no secret that government funding levels for low income programs are less certain as evidenced by the declining budgets. By improving the energy efficiency of low-income

¹ The Attorney General does not participate in these comments.

² Attorney General Comments at 13.

customers, DE-Kentucky and other jurisdictional utilities reduce the reliance and pressure on the government to fund LIHEAP.

In addition, the Attorney General's assertion that 32% of funds are spent on low income programs is misleading because the Attorney General's comment is only in reference to the residential DSM programs. The Attorney General's comparison does not take into consideration the total budget of all DE-Kentucky's DSM programs, including the spending for commercial and industrial customers. The accurate comparison, using the total DSM program budget of \$3,592,181,⁴ results in the percentage of dollars spent on low income programs closer to 23% of the total budget.

The Attorney General's comments imply that estimates of the cost per kWh saved should be the litmus test for the reasonableness of a DSM program. However, the Attorney General's myopic analysis of a single year total kWh savings for many programs simply misses the mark. Although the cost per kWh may initially look high during year one, one must also consider that the kWh impacts continue on for many years without any additional cost. For example, with respect to the refrigerator replacement program, once an inefficient appliance is replaced with a high efficiency refrigerator, it provides value for many years in terms of energy savings without additional expense. The Company is not buying the same customer a new refrigerator every year. These comments demonstrate that the Attorney General consistently neglected to consider the multiple year energy savings over the life of the measures in computing a cost per kWh saved.

DE-Kentucky submits that if a program or measure can be shown to pass the

³ *Id.*

⁴ Application, Appendix J, Page 2, the sum of the individual programs.

relevant cost-effectiveness tests over the life of the program or measure, the size of the cost per kWh number is immaterial and irrelevant. DE-Kentucky has consistently provided such cost-effectiveness test results in its update filings to the Commission.

The Attorney General is also critical of DE-Kentucky's audit programs, stating in relevant part:

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.⁵

With respect to the issue of what the Attorney General classifies as "engineered savings estimates," as the Commission is aware, DE-Kentucky files impact evaluation studies for all its programs as they are completed. These studies are conducted and/or verified by outside experts in the field who support the estimates of the energy saved. DE-Kentucky may rely on engineering estimates of savings in screening programs for cost-effectiveness, but ultimately relies on the results from impact evaluation studies to prove the estimates and verify a program's cost effectiveness.

II. Specific Comments

A. Residential Conservation and Energy Education

In its Comments, the Attorney General is critical of DE-Kentucky's Residential Conservation and Energy Education program, stating among other things, that the renovation services offered under the program are not warranted, the program does not distribute contributions in an equitable fashion and the energy savings do not justify

⁵ Attorney General Comments at 14.

continuing the program.⁶ The Attorney General emphasizes that from the data provided by DE-Kentucky, on average approximately 226 homes per year participate in both areas of the program, but that DE-Kentucky reported participation in the weatherization portion of the program between July 2006 and June 2007 as only 22 households.⁷ The Attorney General is also critical of the refrigerator replacement program emphasizing that only 44 households took advantage of the program between June 2006 and July 2007.⁸ DE-Kentucky could not disagree more with the Attorney General's assertions.

First, DE-Kentucky appreciates the Attorney General's observation of 22 completed households as reported in Table 1, Page 6, of the Application under this program and would like to acknowledge that this number was posted in error. The total number of homes completed during the reporting period of July 1, 2006 – June 30, 2007 was actually 176 households. The number reported in Table 1 was actually just for one month and was not accurate for the reporting period. In fact, on Page 8, Line 6 of DE-Kentucky's Application, the program is described as having 106 participants in the first six months of 2007. DE-Kentucky apologizes for this error and the confusion it has caused. DE-Kentucky became aware of the error through the Attorney General's comments.

The Residential Conservation and Energy Education program is designed to install energy efficiency measures and to deliver energy education in the homes of low income customers qualifying at 150% of the federal income guidelines. Only measures that focus on the safety and health of our customers and pass a cost effectiveness Savings Investment Ratio of 1.5 are allowed in this program. The measures included in the

⁶ *Id.* at 17.

⁷ *Id.*

Residential Conservation and Energy Education Program are selected specifically because they reduce energy consumption cost effectively. The measures in this program are accepted and used by every state as well as by the Federal Department of Energy.

The Attorney General is also critical of DE-Kentucky's refrigerator replacement initiative under the program. Specifically, the Attorney General is of the opinion that the program costs do not appear to justify the investment by ratepayers and that there is a conflict of interest with the refrigerator replacement program because the company evaluating the program also designed the program.⁹ The Attorney General recommends a third party be used to evaluate the program.

The Attorney General's criticism of the load impact number of 47,916 kWh and 14 kW for the refrigerator replacement program is misleading. The spending for this period for the Refrigerator Replacement program was \$61,176.63 versus the stated \$100,000.00 which is the budget amount for this program. In addition, as described above, the Attorney General's criticism does not reflect the total savings over the life of the program. As more refrigerators are replaced, the greater the impact on load savings on a going-forward basis.

The Attorney General expresses one additional concern with the refrigerator replacement program regarding a potential conflict of interest in the program's evaluation.¹⁰ Specifically, the Attorney General questions the integrity of the evaluation due to the involvement of Morgan Marketing Partners Inc. ("MMP"), the designer of the program.¹¹ The Attorney General's concerns would be relevant were that truly the case.

⁸ *Id.*

⁹ *Id.* at 17.

¹⁰ *Id.* at 17-18.

¹¹ *Id.*

The saving calculations and the program evaluations are not influenced by the designing and evaluating firm, MMP. The refrigerator replacement program impact savings calculations are based on actual in-field metering performed by DE-Kentucky. In addition, Duke Energy has its third party evaluation contractor, TechMarket Works, Inc. (“TechMarket Works”) review all evaluations to assure appropriate protocols are followed. TechMarket Works helped establish the calculation approach and review the results for accuracy. This ensures the evaluations are credible and independent.

B. Residential Comprehensive Energy Education Program (NEED)

In its Comments, the Attorney General advocates that school outreach programs provided under the Residential Comprehensive Energy Education Program are questionable and unreasonable.¹² The Attorney General misclassifies the program as merely an attempt to get children to influence a parental behavior and to “turn off lights” when they leave a room.¹³ The Attorney General further states that there are no verifiable energy reductions associated with the program.¹⁴

The Attorney General’s comments are once again misleading and mischaracterize the reach of the program. An impact evaluation study was performed on this program and provided in response to AG DR 01-024. This impact evaluation report was also previously provided to the Commission in DE-Kentucky’s September 2005 update filing. The evaluation study describes in detail the group of energy efficiency measures that are provided to students to take home and install as well as the analysis of load impacts under the program. Reviewing the program description shows the scope is more than teaching students to shut off lights.

¹² *Id.* at 18.

¹³ *Id.* at 19.

C. Payment Plus

The Attorney General is critical of the Payment Plus program alleging that the energy savings arise purely out of the weatherization portion of the program and that the remainder of the program is merely an effort to reduce arrearages through budget counseling.¹⁵ In support of his dissatisfaction with this program, the Attorney General cites to, albeit out of context, evidence that the evaluation report shows an increase in consumption and is critical of the page count of the energy savings portion of DE-Kentucky's evaluation report claiming only 13 of the 75 pages of the report discuss energy savings.¹⁶

First, contrary to the Attorney General's position, the number of pages of a final report, or any section within a report, has no relation to the significance, reliability, time spent analyzing data, or importance of the subject matter. The report addresses various aspects of the Payment Plus Pilot Program, including customer satisfaction and process issues, to improve the program before becoming a full program. The report was meant to provide independent feedback to DE-Kentucky on ways to improve the program to increase participation levels, improve administrative efficiency, and to provide an estimate of expected savings.

Second, with respect to the alleged increase of consumption noted in DE-Kentucky's evaluation report submitted in Case No 2006-00426, as referenced by the Attorney General, a careful reading of the report reveals that the evaluators (TechMarket Works) indicate that the impact estimates for some of the study groups should be

¹⁴ *Id.*

¹⁵ *Id.* at 20.

¹⁶ *Id.*

considered anecdotal and not statistically accurate due to the low sample size.¹⁷ Moreover, Page 40 of the report directly addresses the increase in electrical consumption and states that the report results do not mean that all participants increase their consumption and that other factors such as number of residents, illness, medical equipment, more and larger appliances can have a profound effect on consumption and that the increased consumption levels may not be in the long term.¹⁸ In fact, page 44 of the report at figure 14, clearly shows that all groups except for the Pilot 1 non-weatherized participants decreased their therm consumption regardless of weatherization.¹⁹ The overall savings of non-weatherized participants indicate that the educational component does have a positive effect on the participating customers by helping them to reduce their therm consumption by 55 therms annually.²⁰

D. Power Manager

With respect to DE-Kentucky's Power Manager Program, the Attorney General recommends the program be discontinued alleging it provides no benefits to ratepayers.²¹ The Attorney General recommendation is based upon his claim that if the program were truly needed, the number of control hours/ days would be greater and that the 3.3 megawatt ("MW") demand is not enough energy savings to offset the \$875,000 budget.

It is clear from this statement that the Attorney General does not appreciate the objective of the program. Power Manger is an air conditioning load control program designed to reduce loads at peak times, not to save energy. Notwithstanding the fact that customers would likely cancel enrollment in the program if it were utilized frequently as

¹⁷ Case No. 2006-00426, appendix A at 38.

¹⁸ *Id* at 40.

¹⁹ *Id* at 44.

²⁰ *Id*.

²¹ Attorney General Comments at 21.

suggested by the Attorney General, Power Manager is effective when the temperatures are high and air conditioners are running. The program's value is in reducing the need for peaking capacity and the use of combustion turbines during times of scarcity of resources.

The Power Manager program has been shown to be cost effective not only from the perspective of the IRP Utility Test (UCT) = 3.32 but also from the perspective of the Ratepayer Impact Measure Test RIM Test = 3.32. Taken together, these two measures ensure that the program is not only cost effective, relative to proposed plant additions, but also that the program is assured to reduce rates generally for all ratepayers, both participants and non-participants. This value exists precisely because the Power Manager program is able to efficiently and effectively target and obtain the avoided costs when they are the highest. In this case, avoided energy is neither the goal of the program, nor the source of the benefits for the customer base or the company. Avoided capacity is the primary benefit for this program, and the Power Manager incentives and promotions are targeted specifically toward this IRP and rate-reduction objective.

DE-Kentucky's alternative is the construction of more expensive natural gas peaking plants, which may run 1 hour or 10 hours or 22 hours, depending on the needs of the system. In all cases, the Power Manager program is more cost-effective than the supply-side alternative. The program is flexible and can be used up to 100 hours should operational conditions warrant its use.

Should the Power Manager program eventually achieve more significant participation levels, it is possible that energy related savings might contribute to the overall IRP selection decision, but at current MW levels for the program, the Power Manager program is cost effective for the current IRP avoided costs and is likely to be

cost-effective for the foreseeable future.

III. CONCLUSION

For the reasons outlined herein above, DE-Kentucky respectfully requests the Commission approve DE-Kentucky's Application as filed.

Respectfully submitted,

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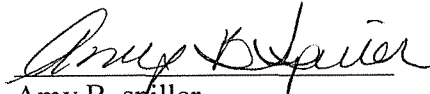
I hereby certify that a copy of the foregoing filing was served on the following via ordinary United States mail, postage prepaid, this 3^d day of April, 2008:

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