

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ANNUAL COST RECOVERY FILING FOR)	
DEMAND SIDE MANAGEMENT BY DUKE)	CASE NO.
ENERGY KENTUCKY, INC.)	2008-00473

O R D E R

On November 17, 2008, Duke Energy Kentucky, Inc. ("Duke Kentucky"), with the consensus of its Residential Collaborative and Commercial & Industrial Collaborative, filed its annual Demand Side Management ("DSM") status report and proposed adjustments to its DSM Cost Recovery Riders. In addition, Duke Kentucky requested that, as long as it continues to file annual DSM applications by November 15 of each year, the approved rates remain in effect until the effective date of new DSM rates or until otherwise Ordered by the Commission.¹

BACKGROUND

Duke Kentucky (formerly known as The Union Light, Heat and Power Company) has offered DSM programs to its customers under the authority of KRS 278.285 since 1996.² It presently offers nine residential programs and two non-residential programs to its customers, which are briefly described later in this Order. With its application in this

¹ This request was granted in the Commission's December 16, 2008 Order in this proceeding.

² Case No. 1995-00312, The Joint Application Pursuant to 1994 House Bill No. 501 for the Approval of the Principles of Agreement, Demand Side Management, The Union Light, Heat and Power Company, and for Authority for The Union Light, Heat and Power Company to Implement Various Tariffs to Recover Costs, Lost Revenues and Receive Incentives Associated with Demand Side Management Programs (Ky. PSC Dec. 1, 1995).

proceeding, Duke Kentucky proposed no changes to any of its DSM Programs. Based on 2009 program costs and lost revenues and shared savings for the 2008 DSM program year, Duke Kentucky proposed: (1) increased DSM rates for residential electric and gas customers; (2) decreased DSM rates for non-residential electric customers; and (3) no changes in DSM rates for non-residential gas customers.

CURRENT DSM PROGRAMS

Duke Kentucky's existing DSM programs have received Commission approval in various cases over a period of several years. Generally, as has been proposed by Duke Kentucky, our initial approval of a program has been for a specific period of time, which, most often, has been three years. While some existing programs have been in effect for much more than three years, some received initial Commission approval just within the past two to three years. Because all of the programs have been thoroughly described in Orders in prior Duke Kentucky DSM cases, the following discussion of the programs will be both brief and cursory.

Residential DSM Programs

The residential programs Duke Kentucky currently offers are as follows:

- Residential Conservation and Energy Education
- Payment Plus
- Home Energy Assistance Program
- Residential Home Energy House Call

- Residential Comprehensive Energy Education Program (“NEED”)³
- Power Manager
- Energy Star Products
- Energy Efficiency Website
- Personalized Energy Report

The first three programs listed above are targeted toward low-income customers. The Residential Conservation and Energy Education program provides weatherization services, a refrigerator replacement component, and educational information designed to help customers reduce energy use and, in turn, their utility bills. The Payment Plus program offers energy and budget counseling and weatherization services. It provides bill credits to those customers who participate in the counseling sessions and in the Residential Conservation and Energy Education program. The Home Energy Assistance Program, which was approved in 2008, provides low income customers with payment assistance.⁴

The Residential Home Energy House Call program provides customers with a comprehensive energy audit including a report prepared by the auditor which points out opportunities for energy savings. It also includes an energy kit given to the customer at the time of the audit which contains a low-flow showerhead, aerators, outlet gaskets, compact fluorescent bulbs, and a motion sensor night-light.

³ National Energy Education Development, which is a national program started in 1980 designed to promote student understanding of the scientific, environmental and economic impacts of energy with an emphasis on efficient energy use.

⁴ Case No. 2008-00100, The Application of Duke Energy Kentucky, Inc. to Reinstitute a Home Energy Assistance Program (Ky. PSC Sept. 25, 2008).

Power Manager is Duke Kentucky's air conditioner cycling program which allows it to remotely cycle off its customers' central air conditioning condensers for short periods of time during peak hours on high-demand days during the summer cooling season. This program has the greatest impact on demand of any of Duke Energy's DSM programs.

The Energy Star Products program provides incentives and support through retailers to promote the use of Energy Star products with an emphasis on Compact Fluorescent Light ("CFL") bulbs and torchiere lamps. The Energy Efficiency Website program allows customers to assess their energy usage and find tips on energy efficiency. Customers who utilize the website tools receive a free Energy Efficiency Starter Kit which includes a showerhead, aerators, CFLs, shrink-fit window kit, weather stripping, outlet gaskets, and teflon tape. The Personalized Energy Report provides a customized report on energy management based on a customer's survey responses. It also provides customers with a free Energy Efficiency Starter Kit.

Duke Energy's application included reports on third-party reviews of several of its residential DSM programs. The reviews consisted of (1) an energy savings analysis on the refrigerator replacement sub-part of the Residential Conservation and Energy Education program performed by Morgan Marketing Partners, (2) a process and energy impact evaluation of the Home Energy House Call program, (3) an energy impact evaluation of the NEED program, and (4) a process and impact evaluation of CFL promotional activities conducted within the Energy Star Products program. The latter reviews were performed by TecMarket Works.

Non-Residential DSM Programs

Duke Kentucky offers two non-residential programs: the C&I High Efficiency Incentive (for businesses and schools) and the PowerShare program. The first program offers incentives to small commercial and industrial customers to install high efficiency equipment in new applications, retrofits, or to replace existing equipment. As it has evolved, the program now also offers custom incentives to schools in Duke Kentucky's service territory. Duke Kentucky's application included a report on a process and impact evaluation of this program performed by TecMarket Works.

PowerShare is a voluntary peak management program under which the customer enters into an agreement which provides for bill credits under certain circumstances. There are two options under which a customer may either reduce demand or provide generation to Duke Kentucky.

SAVINGS AND COSTS

Duke Kentucky reported energy savings of 28.3 million kWh for the 12 months ended June 30, 2008 attributable to its DSM programs. The programs' demand impacts for this period were reductions of 8,458 kW.

The application included cost effectiveness test results for all of Duke Kentucky's existing programs except for the Home Energy Assistance Program which, due to being a payment assistance program, is not intended to produce energy or demand savings. Results were provided for the Utility Cost Test, the Participant Test, Ratepayer Impact Measure, and the Total Resource Cost Test.

Duke Kentucky's current DSM revenue requirement, including program costs, lost revenues and financial incentives is \$6.1 million.⁵ This level of expenditures, along with under-recoveries from prior periods, results in a total DSM revenue requirement of \$8.0 million, of which \$4.3 million is allocated to Duke Kentucky's electric operations while \$3.7 million is allocated to its gas operations.⁶ These amounts result in the following proposed changes in Duke Kentucky's DSM rate surcharges.

<u>Customer Classification</u>	<u>Existing DSM Surcharge</u>	<u>Proposed DSM Surcharge</u>
Electric Residential	\$0.001416 per kWh	\$0.002036 per kWh
Non-residential Distribution	\$0.001405 per kWh	\$0.000512 per kWh
Non-residential Transmission	\$0.000154 per kWh	\$0.000047 per kWh
Gas Residential	\$(0.109294) per Mcf	\$0.66904 per Mcf

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 with the filing of its application which contains evaluation reports on individual programs, cost effectiveness test results for all programs, plus energy and demand savings, projected expenditures, and reconciliations of prior period revenues and costs for all programs.

⁵ Duke Kentucky's application at 42 and Appendix I, page 2 of 6.

⁶ Id., Appendix I, page 5 of 6.

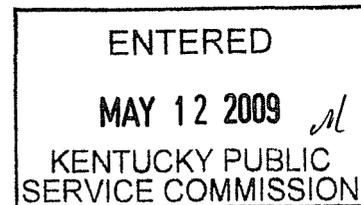
2. Duke Kentucky's proposed revisions to its DSM rate surcharges which reflect projected DSM expenditures plus the true-up of prior period DSM costs and revenues are reasonable and should be approved.

IT IS THEREFORE ORDERED that:

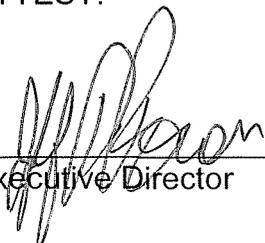
1. Duke Kentucky's revised DSM rate surcharges are approved, effective as of the date of this Order.

2. Within 10 days from the date of this Order, Duke Kentucky shall file its revised DSM tariffs showing their date of issue and that they were issued by authority of this Order.

By the Commission



ATTEST:



Executive Director

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