

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ANNUAL COST RECOVERY FILING FOR)	Case No.
DEMAND-SIDE MANAGEMENT BY)	2010-00445
DUKE ENERGY KENTUCKY, INC.)	

O R D E R

On November 15, 2010, Duke Energy Kentucky, Inc. ("Duke Kentucky") submitted the annual status report and cost recovery filing for its Demand-Side Management ("DSM") programs. Duke Kentucky requests Commission approval of the proposed adjustments to its DSM Rider and the addition of a new energy efficiency program called Residential Smart Saver to its existing DSM portfolio. According to the filing, all members of the Duke Kentucky Residential Collaborative¹ and Commercial and Industrial Collaborative² are in agreement with the proposed application, with the exception of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), who was to indicate his opinion at a later date.

¹ The Residential Collaborative members are: Attorney General ("AG") (Heather Kash), People Working Cooperatively (Jock Pitts), Northern Kentucky Community Action Commission (Florence Tandy), Brighton Center (Talia Frye), Northern Kentucky Legal Aid (Carl Melcher), Kentucky Need Project (Carolyn Bergs), Campbell County Fiscal Court (Pat Dressman), Department of Energy Development and Independence (Lee Colten), and Duke Energy Kentucky (Tim Duff and Trisha Haemmerle). Boone County Fiscal Court is still a member of the Collaborative but currently has no representative.

² The Commercial & Industrial Collaborative members are: Attorney General ("AG") (Heather Kash), People Working Cooperatively (Jock Pitts), Kentucky Need Project (Pam Proctor), Department of Energy Development and Independence (Pat Dressman and Lee Colten), and Duke Energy Kentucky (Tim Duff and Trisha Haemmerle).

The AG sought and was granted intervention in this case and filed a notice on April 21, 2011 that he would not be filing comments.

Duke Kentucky seeks approval to increase the Program Administration, Development and Evaluation portion of its DSM budget by \$60,000 and proposes that the increase be used to assess the viability of commercial programs. These costs will be borne by the commercial customers.

Duke Kentucky proposed changes to its DSM cost-recovery surcharge factors to be effective 30 days from the date of its application. By Order dated December 10, 2010, the Commission suspended the proposed surcharge factors for five months, up to and including May 13, 2011.

A procedural schedule was established allowing for two rounds of discovery and the filing of comments. There were two telephonic informal conferences with Duke Kentucky, the AG, and Commission Staff on March 9, 2011 and May 3, 2011, with responses to questions being received March 17, 2011 and May 12, 2011, respectively. Discovery is complete and the matter now stands submitted to the Commission for a decision on the record.

DISCUSSION OF EXISTING PROGRAMS

Duke Kentucky proposes to offer the eleven DSM programs to its residential, commercial and industrial customers in 2011 as it offered in 2010. The programs are:

1. Residential Conservation and Energy Education—This program specifically focuses on Low Income Home Energy Assistance Program customers that meet the income qualification level, income below 130 percent of the federal poverty level. The program provides direct installation of weatherization and energy-efficiency measures

and educates customers about their energy usage and other opportunities to reduce energy consumption and lower their costs.

2. Residential Home Energy House Call—This program is administered by contractor Wisconsin Energy Conservation Corporation, Inc. The program provides a comprehensive walk-through, in-house analysis. The home audit reviews total home energy usage, and checks appliances and heating/cooling systems.

3. Residential Comprehensive Energy Education—This program is operated under contract by the National Energy Education Development (“NEED”). Energy education coordinators work with schools, teachers, and students on energy education programs. Home Energy Efficiency Kits are distributed to students.

4. Program Administration, Development & Evaluation—This program is responsible for designing, implementing, and capturing costs related to the administration, evaluation, and support of the overall DSM effort. This program’s funds are utilized for the redesign of programs and for the development of new programs or program enhancements.

5. Payment Plus—This is a home energy assistance program. The program has three parts: (1) Energy & Budget Counseling; (2) Weatherization; and (3) Bill Assistance. This program is offered over six winter months per year starting in October.

6. Power Manager—This is a load control program. The purpose of this program is to reduce demand by controlling residential air conditioning usage during peak demand conditions in the summer months.

7. Energy Star Products—This program promotes Energy Star products, particularly Compact Fluorescent Lights (“CFL”). Discount coupons are mailed directly

to customers' homes. Customers receive a coupon mailer offering \$3 off the purchase of two General Electric (GE) CFL two-packs.

8. Energy Efficiency Website, On-line Energy Assessment--This program offers customers the opportunity to visit their On-line Service accounts at dukeenergy.com and encourages them to take a short Energy Efficiency survey ("EE survey"). Participants receive an immediate, on-line, printable Energy Efficiency report ("EE report") and are sent a package of six free CFLs. The report contains month-to-month usage (kWh/Ccf) and customized energy tips.

9. Personalized Energy Report Program--This program is similar to the Energy Efficiency Website, On-line Energy Assessment, except that it is a mailed version of the on-line offer. An EE report and six CFLs are mailed to customers who send in a completed EE survey.

10. Commercial & Industrial High Efficiency Incentive (Business and School) -- The Business program provides incentives to small commercial and industrial customers to install high-efficiency equipment in applications involving new construction, retrofit and replacement of failed equipment. The School program provides funding to schools for facility assessments, custom and prescriptive measures, rebates, and energy efficiency education from the NEED organization.

11. PowerShare--This is the brand name of Duke Kentucky's voluntary Peak Load Management Program (Rider PLM, Peak Load Management Program, KY.P.S.C. Electric No. 2, Sheet No. 77). This program offers non-residential customers the opportunity to reduce their electric costs by managing their electric usage during peak load periods.

The following table lists the program participation and kWh and kW impacts for the 12 months ending June 30, 2010:

	Incremental Participation	Load Impacts Net of Free Riders	
		kWh	kW
<u>Residential Programs</u>			
Home Energy House Call	482	181,714	28.9
Energy Efficient Website	314	70,675	19.4
Energy Star Products*	28,890	1,629,955	278.2
Low Income Program	199	123,977	34.1
Refrigerator Replacement	92	100,004	24.1
Personalized Energy Report	7,010	2,559,447	620.3
Power Manager**	9,792	0	13,464.0
NEED	<u>488</u>	<u>56,750</u>	<u>4.9</u>
Total Residential	47,267	4,722,522	14,473.9
<u>Non-Residential Programs</u>			
C&I Lighting	24,801	336,409	886.8
C&I HVAC	89	69,086	140.5
C&I Motors	18	502,278	1,016.6
C&I Other	4,782	58,858	122.0
Custom Incentive Schools	25	13,188,212	433.5
Power Share	<u>12</u>	<u>0</u>	<u>2,924.3</u>
Total Non-Residential	<u>29,727</u>	<u>14,154,843</u>	<u>5,523.7</u>
Total	76,994	18,877,365	19,997.6

*Energy Star Products is the number of bulbs, not participants.

**Cumulative number of controlled devices installed.

DISCUSSION OF PROPOSED PROGRAM

Duke Kentucky requested approval to implement the Residential Smart Saver program for an initial three-year term through December 31, 2013. The objective of this program is to offer additional incentives to qualifying residential customers in support of the Kentucky Housing Corporation's ("KHC") Kentucky Home Performance ("KYHP") conservation program. The KYHP is a state-wide program that targets households at or

above 200 percent of poverty in order to initiate energy conservation and to stimulate the residential home improvement market. While Duke Kentucky believes that customers with moderate to higher income levels are more likely to participate, there is no floor or income level requirement to participate in Duke Kentucky's Residential Smart Saver program. Improvement measures include attic insulation and air sealing, duct sealing, and tune-ups for central air conditioning and heat pump equipment. The program also offers incentives for the installation of high efficiency heat pumps or air conditioners in both existing homes and new construction. Even though some improvement measures included in this program are duplicative of some of the measures included in the Residential Conservation and Energy Education program, Duke Kentucky states that customers will not be eligible for multiple Duke Kentucky incentives from different programs for the same installed improvement.³

The table below details the incentives Duke Kentucky proposes to offer as part of the Residential Smart Saver program.

<u>Qualifying Improvement Measure</u>	<u>Customer Incentive</u>	<u>Contractor Incentive</u>
Attic Insulation and Air Sealing	\$250	
Duct Sealing	\$100	
Heat Pump Tune-Up	\$50	
Air Conditioner Tune-Up	\$50	
High Efficiency Heat Pump	\$200	\$100
High Efficiency Central Air Conditioner	\$200	\$100

³ See Duke Kentucky's Response to Staff's Fourth Set of Data Requests, Item 3, propounded at the May 3, 2011 informal conference, filed May 12, 2011.

This program design is projected to be cost-effective. The Total Resource Cost result is 1.38.⁴ The projected energy savings over the requested three-year period is 5,532,146 kWh.

Duke Kentucky proposes to employ third-party companies to administer the program ("Program Administrator"). The Program Administrator will be responsible for working with "Trade Allies" such as heating or insulation contractors who are in direct contact with customers. Duke Kentucky employs a third party vendor, Customer Link, to handle customer calls on the program.

The projected first-year budget and kWh savings is shown below:

<u>Year</u>	<u>Projected Program Costs</u>	<u>Lost Revenues</u>	<u>Shared Savings</u>	<u>Energy Impacts kWh</u>
2011	\$448,520	\$50,150	\$53,822	971,550

SAVINGS AND COSTS

Duke Kentucky reported energy savings of 18.9 million kWh attributable to its DSM programs for the 12 months ending June 30, 2010. The programs resulted in demand reductions during this period of 19,998 kW.

Duke Kentucky's DSM revenue requirement, including program costs, lost revenues, and financial incentives is \$6.7 million.⁵ This level of expenditure, along with under- and over-recoveries from prior periods, results in a total DSM revenue requirement of \$6.5 million, of which \$5.4 million is allocated to electric operations and

⁴ If the cost/benefit analysis is equal to or greater than 1.0, the program is deemed cost-effective.

⁵ Duke Kentucky's application at 36 and Duke Kentucky's Response to Commission Staff's Third Data Request, Item No. 3, Appendix B, page 2 of 5.

\$1.1 million is allocated to gas operations.⁶ These amounts result in the following proposed changes to Duke Kentucky's surcharge factors:

<u>Customer Classification</u>	<u>Existing DSM Surcharge</u>	<u>Proposed DSM Surcharge</u>
Electric Residential	\$0.001830 per kWh	\$0.001514 per kWh
Non-residential Distribution	\$0.000917 per kWh	\$0.001326 per kWh
Non-residential Transmission	\$0.000078 per kWh	\$0.000274 per kWh
Gas Residential	\$0.74752 per Mcf	\$0.16509 per Mcf

CONCLUSIONS

Having reviewed the record, the evaluation studies, and the cost-effectiveness test results provided by Duke Kentucky in support of its existing and proposed DSM programs, 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 this most recent annual filing, which contains updates on individual programs, energy and demand savings, projected expenditures, and reconciliations of prior revenues and costs for all programs.
2. Duke Kentucky's existing DSM programs should continue as previously approved through December 31, 2012.
3. Duke Kentucky's request to increase the budget for Program Administration, Development & Evaluation by \$60,000 to conduct the necessary

⁶ Id. at 5 of 5.

evaluations in accordance with International Performance Measurement and Verification Protocol to assess the viability of commercial programs is reasonable and should be approved.

4. Duke Kentucky's request to implement the Residential Smart Saver program in order to offer additional incentives to qualifying residential customers in support of the KHC KYHP conservation program is reasonable and should be approved. However, approval of the program through December 31, 2013 as requested will not allow the program to expire on the same date as Duke's other DSM programs. Therefore, the Commission finds, under the present circumstances, that it is reasonable to approve the Residential Smart Saver Program through December 31, 2012 to coincide with the expiration of Duke Kentucky's other DSM programs.


5. Duke Kentucky's revised DSM surcharge factors, which are based on its expected level of DSM program costs and the true-up of prior period DSM costs and revenues, are reasonable and should be approved.

IT IS THEREFORE ORDERED that:

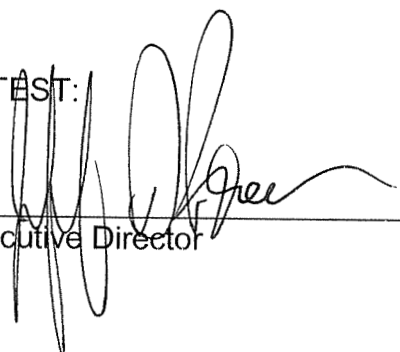
1. Duke Kentucky's application is approved as of the date of this Order with the modification discussed above regarding the term of the Residential Smart Saver program.

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

By the Commission

ENTERED 
JUN 07 2011
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



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