

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|--|------------|
| APPLICATION OF DUKE ENERGY KENTUCKY,) | |
| INC. FOR AN ENERGY EFFICIENCY COST) | CASE NO. |
| RECOVERY MECHANISM AND FOR) | 2012-00085 |
| APPROVAL OF ADDITIONAL PROGRAMS FOR) | |
| INCLUSION IN ITS EXISTING PORTFOLIO) | |

O R D E R

On March 6, 2012, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed a Demand-Side Management ("DSM") application ("Application") requesting to add additional measures and new programs to its current DSM program portfolio. The proposed new programs are the Appliance Recycling Program, the Low Income Neighborhood Program, and the My Home Energy Report Program. The new measures include a live, theatrical production category to the Energy Education for Schools Program, a limited automatic approval process for pilot programs, and expansion of the number of measures included in the Smart Saver Prescriptive Program. Also, Duke Kentucky is requesting recovery for those measures and programs of planned expenditures, lost revenues, and shared savings through the their DSM Rate (Rider DSMR).

Also included in the Application are proposed gas and electric tariffs setting forth new DSM rates and a request that the tariffs become effective July 1, 2012.

According to the Application, all members of Duke Kentucky's Residential and Commercial and Industrial Collaborative ("Collaborative")¹ are in agreement with the proposed Application, with the exception of the Attorney General ("AG"), who abstained from voting. The AG, by and through his Office of Rate Intervention, sought and was granted intervention. The AG submitted no requests for information, but did file comments addressing certain aspects of Duke Kentucky's proposals.

ATTORNEY GENERAL'S COMMENTS

On May 31, 2012, the AG submitted comments expressing his concern as to three items. The first item of concern is the separate accounting of employee-related/administrative DSM cost. The AG requested that the Commission require Duke Kentucky to continue to maintain separate accounting of all of its costs related to DSM or energy efficiency and not include those costs in its base rates.²

The AG's second item of concern is the education component of the Energy Efficiency Program for Schools Program (formerly the Residential Comprehensive Energy Education Program ("NEED")). The AG stated that it did not question the cost-effectiveness of the current Residential Conservation and Energy Education program,

¹ The Residential and Commercial and Industrial Collaborative includes the following: Attorney General, People Working Cooperatively, Kentucky Need Project, Northern Kentucky University Small Business Development, Northern Kentucky Chamber of Commerce, Department of Energy Development and Independence, Kenton County Schools, Wiseway Supply, Monohan Development Company, Kentucky Energy Smart Schools, Northern Kentucky Community Action Commission, Campbell County Fiscal Court, Brighton Center, Campbell County Fiscal Court, Northern Kentucky Legal Aid, Boone County Fiscal Court, Kenton County Fiscal Court, Greater Cincinnati Energy Alliance, and Duke Energy Kentucky. This is per Commission Staff's First Request for Information ("Staff's First Request") to Duke Energy Kentucky, Inc., Item 3 (Ky. PSC Apr. 13, 2012).

² See Attorney General's Comments at 2-3, filed May 31, 2012.

but questioned the reasonableness of the school education component of the DSM program.³

In response to the Company's 2011 DSM annual report and application in Case No. 2011-00448, the Attorney General commented on the negligible cost effectiveness of educational programs targeting school children. In its April 13, 2012 Order in Case No. 2011-00448, the Commission questioned these concerns, referencing the Total Resource Cost test results for a different program. The Attorney General wishes to clarify that it has not and does not question the cost-effectiveness associated with the current "Residential Conservation and Energy Education" program, which is to be renamed the "Low Income Services Program." Rather, the Attorney General questioned the reasonableness of the school education component of the Company's DSM program, which the Company subcontracts to the National Energy Education Development ("NEED") project.

The AG expressed doubt that school education programs have a measurable impact on energy consumption and stated that the programs were more likely only to generate goodwill towards Duke Kentucky.⁴

The AG also expressed concern that, by approving the requested automatic approval for pilot programs costing less than \$75,000, the Commission would obviate any meaningful review of the programs. The AG stated that it appreciated the collaborative process in KRS 278.585 and that the Commission should continue to review any DSM programs before they are approved.⁵

³ *Id.* at 3.

⁴ *See Id.* at 4-5.

⁵ *See Id.* at 4-6.

DUKE KENTUCKY'S REPLY COMMENTS

Concerning the AG's recommendation to continue separation of accounting for DSM programs and personnel, Duke Kentucky states that it expresses no opinion regarding the AG's recommendation to continue the present accounting processes in light of the fact that Duke Kentucky is not proposing to change how it accounts for the personnel and administrative DSM-related costs in this proceeding.⁶

Regarding the AG's comments on the proposed Energy Efficiency Education Program for Schools, Duke Kentucky notes that the AG does not directly oppose the program. Although Duke Kentucky disagrees with the AG's characterization of the program as being goodwill in nature, the company points out that the AG has not recommended any changes to its proposal.⁷

As to the AG's concern over the proposed automatic approval of small-scale pilot programs, Duke Kentucky asserts that the automatic approval process is not intended to shift the risk to its customers. Rather, the process is designed to facilitate bringing new and innovative energy efficiency offerings to its customers. Duke Kentucky further asserts that the AG's concern of an automatic enhancement of profits and performance levels is unwarranted as the Commission will maintain all of its current authority over Duke Kentucky's DSM surcharge mechanism.⁸

⁶ See Duke Energy Kentucky, Inc.'s Motion for Leave to File Instanter and Its Reply Comments at 2, filed June 6, 2012.

⁷ See *Id.* at 3

⁸ See *Id.* at 3-5.

Discovery is complete and the matter now stands submitted to the Commission for a decision based upon the record.

DISCUSSION OF EXISTING PROGRAMS

Duke Kentucky currently offers 13 DSM programs to its residential and commercial and industrial customers in 2012. 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 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 and 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 and 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 and 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 nonresidential customers the opportunity to reduce their electric costs by managing their electric usage during peak load periods.

12. Residential Smart Saver. The objective of this program is to offer additional incentives to qualifying residential customers in support of the Kentucky Housing Corporation's 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.

13. Smart Saver Custom Energy Efficiency Incentive Program. This is a pilot program offered to nonresidential electric customers. This is a new pilot program approved in Case No. 2011-00471⁹ and is an expansion of the existing Smart Saver Customer Incentive Program that is currently only available for schools (grades K-12), with two notable exceptions: (1) the eligibility in the pilot program will be expanded to include nonresidential customers; and (2) the pilot will not include the energy assessment opportunities offered to schools in the current program.

This pilot program includes commercial and industrial customers served under Duke Kentucky's nonresidential rates: specifically, rates DS Service at Secondary Distribution Voltage; DP Service at Primary Distribution Voltage; DT Time-of-Day Rate For Service at Distribution Voltage; EH Optional Rate for Electric Space Heating; SP Seasonal Sports Service; or GS-FL General Service Rate for Small Fixed Loads. The pilot will be limited to a maximum of \$500,000 in incentives offered for the fiscal year.¹⁰ Customers served under Rate TT will be excluded from the pilot because these customers do not participate in Duke Kentucky's DSM rate Rider DSMR.

⁹ Case No. 2011-00471, Application of Duke Energy Kentucky, Inc. to Implement a Pilot Nonresidential Smart Saver Custom Energy Efficiency Program (Ky. PSC Apr. 12, 2012).

¹⁰ The fiscal year is July 1 to June 30, as stated in Case No. 2011-00448, Application of Duke Energy Kentucky, Inc. for the Annual Cost Recovery Filing for Demand Side Management (filed November 15, 2011).

PROPOSED PORTFOLIO OF DSM PROGRAMS

Duke Kentucky is proposing to fold the existing programs into 10 programs, with the exception of the Personalized Energy Report, which will no longer be offered in the revised portfolio but will be available on-line at Duke Kentucky's website.

The proposed portfolio of DSM programs¹¹ is the following:

| Program Number | Revised DSM Portfolio Programs | Includes Existing DSM Portfolio Programs |
|----------------|--|---|
| Program 1 | Residential Smart Saver Energy Efficient Residences Program | Residential Smart Saver |
| Program 2 | Residential Smart Saver Energy Efficient Products Program | Energy Star Products |
| Program 3 | Residential Energy Assessment (Audit)* | Home Energy House Call |
| Program 4 | Energy Education Program for Schools Program (NEED) | Residential Comprehensive Energy Education Program (NEED) |
| Program 5 | Low Income Services | Residential Conservation and Energy Education, and Payment Plus |
| Program 6 | Residential Direct Load Control - Power Manager Program | Power Manager Program |
| Program 7 | Smart Saver Prescriptive Program | C&I High Efficiency Incentive (for Business and Schools) |
| Program 8 | Smart Saver Custom Program | C&I High Efficiency Incentive (for Business and Schools) |
| Program 9 | Smart Saver Energy Assessments | C&I High Efficiency Incentive (for Business and Schools) |
| Program 10 | Peak Load Management (Rider PLM) aka PowerShare | Peak Load Management (Rider PLM) aka PowerShare |

* This program would have included Personalized Energy Report ("PER"), however, PER is no longer being offered in the revised portfolio, but will be available on-line at Duke Kentucky's website.

¹¹ Application, pages 5-6; and Duke Kentucky's Response to Staff's First Request, Item 1, dated April 27, 2012.

1. Residential Smart Saver Energy Efficient Residences. This program is divided into two program tariffs; one is the Energy Efficient Residences,¹² and the other is Energy Efficient Products.¹³ These two programs provide incentives to customers, builders, heating, ventilation and air conditioning (“HVAC”) dealers and weatherization contractors to promote and install high-efficiency air conditioners and heat pumps with electronically commutated fan motors, as well as attic insulation and air sealing, duct sealing, HVAC tune-ups, and lighting.

New measures include duct insulation and property manager lighting. The property manager lighting provides for multifamily property managers to install compact fluorescent bulbs (“CFL”) in permanent, landlord-owned light fixtures. Duke Kentucky will pay for the CFLs and the property manager will pay for the shipping costs.

2. Residential Smart Saver Energy Efficient Residences. This program is currently the Home Energy House Call, an energy audit program.

3. Energy Efficiency Education Program for Schools.¹⁴ This program is currently the Residential Comprehensive Energy Education Program.

Duke Kentucky is proposing to add a live, theatrical production category to this program. The live theatrical production is presented by the National Theatre for

¹² Application, Direct Testimony of Ashlie J. Ossege (“Ossege Testimony”), Attachment AJO-1, pages 1-2; Direct Testimony of Casey Mather (“Mather Testimony”), pages 3-4; and Direct Testimony of James E. Ziolkowski (“Ziolkowski Testimony”), Attachment JEZ-4, pages 3-4.

¹³ Application, Ossege Testimony, Attachment AJO-1, page 2; Mather Testimony, pages 3-4; and Ziolkowski Testimony, Attachment JEZ-4, pages 12-13.

¹⁴ Application, Ossege Testimony Attachment AJO-1, page 3; Mather Testimony pages 4-5; and Ziolkowski Testimony Attachment JEZ-4, page 2.

Children. Each program is performed by two professional actors, with the performance lasting approximately 25 minutes. The purpose of the live theatrical performances is to educate and reinforce energy efficiency lessons learned in the classroom. Students and their families will continue to be encouraged to order and employ the Home Energy Starter Kit.

4. Low Income Services.¹⁵ This program includes the current Residential Conservation and Energy Education and the Payment Plus Program.

5. Residential Direct Load Control – Power Manager.¹⁶ This program is the current Power Manager Program.

6. Smart Saver Prescriptive (“Prescriptive”).¹⁷ This program is currently part of the Commercial and Industrial (“C&I”) High Efficiency Incentive (for Business and Schools). Duke Kentucky is seeking to expand the number of measures to include over 220 measures covering five broad technology categories of: Lighting; HVAC; Motors/Pumps/Drives; Energy Star Food Service Equipment; and Process Equipment.

The following types of equipment are eligible for incentives: high-efficiency lighting; high-efficiency HVAC installations; high-efficiency motors, pumps, and variable frequency drives; high-efficiency food service installations; high-efficiency process equipment installations, including compressed air systems; other high-efficiency

¹⁵ Application, Ossege Testimony, Attachment AJO-1, pages 3-4; Mather Testimony, page 5; and Ziolkowski Testimony, Attachment JEZ-4, pages 6-7.

¹⁶ Application, Ossege Testimony Attachment AJO-1, page 4; Mather Testimony pages 5-6; and Ziolkowski Testimony Attachment JEZ-4, pages 9-10.

¹⁷ Application, Ossege Testimony, Attachment AJO-1, page 4; Direct Testimony of Kevin A. Bright (“Bright Testimony”), pages 3-4; and Ziolkowski Testimony, Attachment JEZ-4, pages 18-19.

installations as determined by Duke Kentucky on a case-by-case basis; and maintenance to increase the efficiency of existing equipment.

The incentives offered are designed to offset a portion of the capital cost of moving to higher efficiency equipment. The incentive amounts are known to the customer before they undertake their project, so the customer can proceed with their project and submit documentation after installation.

7. Smart Saver Custom ("Custom").¹⁸ This program was most recently approved as the pilot Nonresidential Smart Saver Custom Incentive program in Case No. 2011-00471.¹⁹ This program is intended to capture quantifiable energy savings from projects that do not fit into the Prescriptive program. A key difference between the Prescriptive program and the Custom program is that the Custom program requires the customer to submit an application before they begin the project.

The following types of equipment are eligible for incentives: high-efficiency lighting; high-efficiency HVAC installations; high-efficiency motors, pumps, and variable frequency drives; high-efficiency food service installations; high-efficiency process equipment installations, including compressed air systems; and other high-efficiency installations as determined by Duke Kentucky on a case-by-case basis.

The potential incentive amounts are based on the avoided energy and avoided capacity produced by the installed measure(s). Duke Kentucky is seeking to expand

¹⁸ Application, Ossege Testimony, Attachment AJO-1, page 5; Bright Testimony, pages 4-5; and Ziolkowski Testimony, Attachment JEZ-4, pages 14-15.

¹⁹ Case No. 2011-00471, Duke Energy Kentucky, Inc. (Ky. PSC Apr. 12, 2012).

this program to all eligible commercial and industrial customers on a more permanent basis.

8. Smart Saver Energy Assessments.²⁰ This program offers several different types of assessments to help nonresidential customers identify energy efficiency opportunities. The assessments are the online analysis, telephone interview analysis, and the on-site audit and analysis.

The online assessment is available for all nonresidential customers through Duke Kentucky's website and this tool is free.

The telephone interview analysis is for customers with a peak demand over 500 kW, and for those customers the telephone interview assessment is free. Duke Kentucky reserves the right to decline a telephone-based assessment if the resulting analysis is not expected to yield actionable recommendations for implementation or specific areas for further investigation.

The cost of the on-site audit and analysis is shared by Duke Kentucky and the customer. The cost of the on-site assessment can vary depending on the length of the time an assessor spends at a customer's facility. The customer pays 50 percent of the cost and Duke Kentucky pays 50 percent, but the customer's cost can be further reduced upon payment by Duke Kentucky of incentives for equipment installed by adopting recommendations made in the audit under the Prescriptive or Custom programs.

²⁰ Application, Ossege Testimony, Attachment AJO-1, page 5; Bright Testimony, pages 5-6; and Ziolkowski Testimony, Attachment JEZ-4, pages 16-17.

9. Peak Load Manager (Rider PLM) a/k/a PowerShare. This is the current PowerShare program. This program is 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 nonresidential customers the opportunity to reduce their electric costs by managing their electric usage during peak load periods.

PROPOSED NEW DSM PORTFOLIO PROGRAMS

The following are three new proposed DSM programs:

10. Appliance Recycling.²¹ This program encourages residential customers to responsibly dispose of older, functioning but inefficient refrigerators and freezers. Residential customers who chose to participate will be paid a cash incentive of up to \$30 per unit, with a maximum of two units per year. The disposal of the refrigerators and freezers will be handled in an environmentally friendly manner, with approximately 95 percent of the material recycled and five percent going to a landfill. JACO Environmental, Inc. is the vendor chosen to recycle, reclaim, and dispose of materials.

The marketing of the program will consist of direct mail, social media, and community presentations and publications like newsletters. Point-of-sale messaging will also be pursued with prominent appliance retailers.

11. Low Income Neighborhood.²² This program will be available to both homeowners and renters occupying single-family and multi-family dwellings in target

²¹ Application, Ossege Testimony, Attachment AJO-1, pages 5-6; Mather Testimony, page 6; and Ziolkowski Testimony, Attachment JEZ-4, page 1.

²² Application, Ossege Testimony, Attachment AJO-1, page 6; Mather Testimony, pages 7-8; and Ziolkowski Testimony, Attachment JEZ-4, page 5.

neighborhoods. Targeted low-income neighborhoods qualify for the program if at least 50 percent of the households are at or below 200 percent of the federal poverty guidelines. A neighborhood is defined as an area of approximately 100–500 homes where a significant number of households are at or below 200 percent of poverty level.

Participating customers will receive the following: an energy assessment to identify energy efficiency opportunities in the customer's home; one-on-one education on energy efficiency techniques and measures; and a comprehensive package of energy conservation measures installed or provided to the extent the measure is identified as an energy efficiency opportunity based on the results of the energy assessment. Energy conservation measures, up to \$210, may include low-cost energy efficiency starter items, such as air infiltration reduction measures, energy efficient lighting, water conservation measures, HVAC filters, or other energy saving devices.

12. My Home Energy Report.²³ This program provides an energy usage report that compares household usage to similarly situated neighboring homes and provides recommendations to lower energy usage. The report also promotes Duke Kentucky's other energy efficiency programs when applicable. The desire of this program is that normative comparisons are intended to induce an energy consumption behavior change. The printed reports are distributed up to 12 times a year; however, delivery may be interrupted during off-peak energy usage months in the fall and spring.

²³ Application, Ossege Testimony, Attachment AJO-1, pages 6-7; Mather Testimony, pages 6-7; and Ziolkowski Testimony, Attachment JEZ-4, page 8.

PROPOSED MEASURES AND PROGRAM EXPANSIONS

Duke Kentucky is proposing a live, theatrical production within the Energy Efficiency Education Program for Schools. The theatrical production includes live performances by two professional actors which last approximately 25 minutes. Duke Kentucky proposes to contract with The National Theatre of Children (“NTC”) to educate students about energy efficiency through live theatrical performances. There would be six performances per academic year, three in the fall and three in the spring. After each performance, students will be encouraged to complete a home energy survey with their families, which is found in an activity book sent to the school prior to a performance. Once the home energy survey has been completed with parent/guardian authorization, the student may be eligible to receive an Energy Efficiency Starter Kit containing specific energy efficiency measures to reduce home energy consumption. The contract would pay NTC based on “pay for results.” Duke Kentucky would only pay NTC for the Home Energy Efficiency Kits that are delivered directly to the homes of Duke Kentucky’s customers.

Duke Kentucky is also requesting that the Commission approve a limited automatic approval process for pilot programs to encourage future development of DSM programs and innovation. The following parameters are proposed:

1. The total pilot program cost including EM&V is projected to be less than \$75,000.
2. The pilot program is found to be cost effective under the Total Resource Cost test and Utility Cost Test.

3. The pilot program has been vetted and approved by the Collaborative.

By allowing these small scale tests of new products to avoid the traditional approval process for new programs, Duke Kentucky will be able to quickly test new and innovative products and services, as well as adapt to and capitalize on market conditions, to bring energy savings opportunities to customers. Duke Kentucky proposes to report on any such pilots as part of its annual DSM update filed in November of each year. If the pilot proves successful and Duke Kentucky decides that a program should be commercialized and offered on a large scale as part of the broader suite of programs, Duke Kentucky will request approval of the Commission and will have actual data based upon the pilot sampling to support such a filing.

Duke Kentucky also requested authority to expand the number of measures to 220 in the Smart Saver Prescriptive program, currently the pilot Smart Saver Custom Energy Efficiency Incentive Program²⁴ and to expand the Smart Saver Prescriptive program to all eligible commercial and industrial customers on a more permanent basis.

COST EFFECTIVENESS

The following table is the results of the cost effectiveness tests²⁵ provided by Duke Kentucky.

| <u>DSM Portfolio Programs</u> | <u>Utility Test</u> | <u>TRC Test</u> | <u>RIM Test</u> | <u>Participant Test</u> |
|---|---------------------|-----------------|-----------------|-------------------------|
| Residential Smart Saver - Energy Efficient Residences & Energy Efficient Products | 4.09 | 4.20 | 1.36 | 5.10 |

²⁴ Case No. 2011-00471, Duke Energy Kentucky, Inc. (Ky. PSC Apr. 12, 2012).

²⁵ Application, Ossege Testimony, Attachment AJO-3 and AJO-4.

| | | | | |
|---|------|-------|------|------|
| Residential Energy Assessment | 1.86 | 1.93 | 1.17 | N/A |
| Energy Education Program for Schools Programs (NEED) | 0.56 | 0.63 | 0.42 | N/A |
| Low Income Services | 0.55 | 1.83 | 0.43 | N/A |
| Residential Direct Load Control - Power Manager | 5.16 | 6.39 | 5.16 | N/A |
| Smart Saver Prescriptive | 9.29 | 3.90 | 1.86 | 3.20 |
| Smart Saver Custom | 7.65 | 1.43 | 1.45 | 1.45 |
| Smart Saver Energy Assessments | N/A | N/A | N/A | N/A |
| Peak Load Management - (Rider PLM) aka PowerShare | 4.59 | 29.62 | 4.59 | N/A |
| Appliance Recycling | 3.52 | 4.07 | 1.37 | N/A |
| Low Income Neighborhood | 1.09 | 1.62 | 0.73 | N/A |
| My Home Energy Report | 2.22 | 2.22 | 1.04 | N/A |

SAVINGS AND COSTS

Duke Kentucky projects that assuming full participation in all measures offered in the proposed portfolio, the cumulative net MWh impacts by the end of 2016 would be approximately 120,000 MWh compared to a cumulative achievement for the same time period in the most recent Integrated Resource Plan²⁶ filing of approximately 99,000 MWh.

Duke Kentucky's DSM revenue requirement, including program costs, lost revenues, and financial incentives, is \$9.1 million.²⁷ This level of expenditure, along with under- and over-recovery from the prior period, results in a total DSM revenue requirement of \$3.5 million, of which \$7.3 million is allocated to electric operations and (\$3.8) million is allocated to gas operations. The \$7.3 million allocated to electric operations includes \$8.5 million of expected DSM program costs, and is net of a \$1.2

²⁶ Case No. 2011-00235, 2011 Integrated Resource Plan of Duke Energy Kentucky, Inc. (filed July 1, 2011).

²⁷ Application, Attachment JEZ-1, page 8; and Duke Kentucky's Response to Staff's First Request, Item 28b., dated Apr. 27, 2012.

million over-recovery from the prior period. The (\$3.8) million allocated to gas operations includes \$0.6 million of expected DSM program costs, and is net of \$4.4 million over-recovery from the prior period. Through a residential customer meter charge, \$144,485 will be recovered from electric customers for Home Energy Assistance (“HEA”) and \$103,979 will be recovered for gas customers for HEA.

CONCLUSIONS

Having reviewed the record, including 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 proposals of its DSM programs with this most recent 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 proposed residential and commercial and industrial DSM surcharge factors contained in its March 6, 2012 application did not include the amount of over or under-recovery as filed in Case No. 2011-00448²⁸ and should be denied.

3. Duke Kentucky’s corrected proposed residential and commercial and industrial DSM surcharge factors as provided in its April 27, 2012 data response,²⁹ reflecting recovery of costs associated with the implementation of its DSM programs,

²⁸ Case No. 2011-00448, Application of Duke Energy Kentucky, Inc. for the Annual Cost Recovery Filing for Demand-Side Management (Ky. PSC Apr. 13, 2012).

²⁹ Duke Kentucky’s Response to Staff’s First Request, Item 28b. and c., dated Apr. 27, 2012.

which includes net lost revenues and incentives associated with the programs, are reasonable and should be approved.

4. Duke Kentucky's request to include a live, theatrical production category employing the National Theatre for Children as part of the Energy Efficiency Education Program for Schools program should be approved as a pilot program for three academic years and Duke Kentucky should file with the Commission on August 15, following the end of each academic year, a process evaluation status report that assesses program operations and student family surveys as to program awareness, satisfaction, and compliance with installations and recommendations. The process evaluation status report should also include interviews with school administrators and a review of the theatrical presentation that monitors program operations as the partnership with NTC. The status report should include an evaluation of engineering estimates and billing analysis. The status report should also include the following: 1) the names and addresses of the schools where the live performances were held; 2) the number of students at each performance; 3) the number of surveys received by Duke Kentucky from the students and their families, by performance; 4) the number of Energy Efficiency Starter Kits mailed to the student's homes, by performance; 5) the proposed schools that will be visited in the next academic year, and 6) a video of a performance from the first academic year.

5. Duke Kentucky's request that the Commission approve a limited automatic approval process for pilot programs should be approved with the following parameters: 1) the total pilot program cost including evaluation, measurement, and verification ("EM&V") is not to be greater than \$75,000; 2) the total cost of all pilot programs in a

fiscal year is not to exceed five percent of the total annual DSM program expenditure; 3) each pilot program has been vetted and approved by the Collaborative; 4) Duke Kentucky must notify the Commission at least 10 days prior to the pilot program's proposed start date; 5) each pilot program is cost effective and the cost/benefit analysis is provided by pilot program with Duke Kentucky's notification of the Commission; and 6) the Commission will review the actual cost of each pilot when filed by Duke Kentucky in its annual cost recovery filing.

6. Duke Kentucky's request to add three new residential programs is reasonable and should be approved.

7. Duke Kentucky's request to modify and enhance its existing DSM portfolio of programs should be approved.

8. The Commission encourages Duke Kentucky to continue evaluating possible programs for inclusion in its DSM portfolio.

9. Once Duke Kentucky has selected a third-party vendor to serve as the administrator for the Low Income Neighborhood program, the Commission should be notified within 20 days of the selection and also, once signed, within 20 days provide a copy of the signed contract.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's proposed residential and commercial and industrial DSM surcharge factors contained in its March 6, 2012 application are denied.

2. Duke Kentucky's revised proposed residential and commercial and industrial DSM surcharge factors as shown in its April 27, 2012 response³⁰ are approved effective for service rendered on and after July 1, 2012.

3. Duke Kentucky's request to include a live, theatrical production category employing the National Theatre for Children as part of the Energy Efficiency Education Program for Schools program is approved as a pilot program for three academic years. Duke Kentucky shall file with the Commission on August 15 following the end of each academic year a process evaluation status report that assesses program operations and student family surveys as to program awareness, satisfaction, and compliance with installations and recommendations. The process evaluation status report shall also include interviews with school administrators and a review of the theatrical presentation that monitors program operations as to the partnership with NTC. The status report shall include an evaluation of engineering estimates and billing analysis. The status report shall also include the following: 1) the names and addresses of the schools where the live performances were held; 2) the number of students at each performance; 3) the number of surveys received by Duke Kentucky from the students and their families, by performance; 4) the number of Energy Efficiency Starter Kits mailed to the student's homes, by performance; 5) the proposed schools that will be visited in the next academic year, and 6) provide a video of a performance from the first academic year.

4. Duke Kentucky's request that the Commission approve a limited automatic approval process for pilot program programs is approved with the following parameters:

³⁰ *Id.*

1) the total pilot program cost including EM&V is not to be greater than \$75,000; 2) the total cost of all pilot programs in a fiscal year is not to exceed five percent of the total annual DSM program expenditure; 3) each pilot program has been vetted and approved by the Collaborative; 4) Duke Kentucky must notify the Commission at least 10 days prior to the pilot program's proposed start date; 5) each pilot program is cost effective and the cost/benefit analysis is provided, by pilot program, with Duke Kentucky's notification of the Commission; and 6) the Commission will review the actual cost of each pilot when filed by Duke Kentucky in its annual cost recovery filing.

5. Duke Kentucky's request to add three new residential programs is approved. Duke Kentucky shall provide information from the first community-based kick-off event as to the material provided to inform the targeted neighborhoods about the Low Income Neighborhood Program, the type of program presented at the community-based kick-off event, and how the program was received.

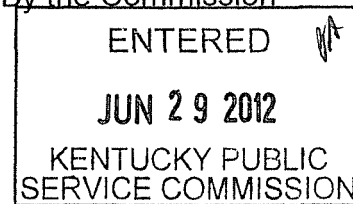
6. Duke Kentucky's request to modify and enhance its existing DSM portfolio of programs is approved.

7. The Commission encourages Duke Kentucky to continue evaluating possible programs for inclusion in its DSM portfolio.

8. Once Duke Kentucky has selected a third-party vendor to serve as the administrator for the Low Income Neighborhood program, the Commission shall be notified within 20 days of the selection and shall provide a copy of the signed contract within 20 days of it being signed.

9. 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



ATTEST:

Cason D. Gunnwaller
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00085 DATED JUN 29 2012

Duke Energy Kentucky – Electric and Gas Customers

| <u>Customer Classification</u> | <u>Proposed DSM Surcharge</u> | <u>Existing DSM Surcharge</u> |
|------------------------------------|-----------------------------------|-----------------------------------|
| Electric Residential | \$0.003093 per kWh | \$0.001295 per kWh |
| Nonresidential Distribution | \$0.000275 per kWh | \$0.001060 per kWh |
| Nonresidential Transmission | \$0.000761 per kWh | \$0.000430 per kWh |
| Gas Residential | -\$0.061391 per Ccf | -\$0.053372 per Ccf |

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