

RECEIVED

DEC 14 2012

PUBLIC SERVICE
COMMISSION

421 West Main Street
Post Office Box 634
Frankfort, KY 40602-0634
[502] 223-3477
[502] 223-4124 Fax
www.stites.com

December 14, 2012

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

Mark R. Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites.com

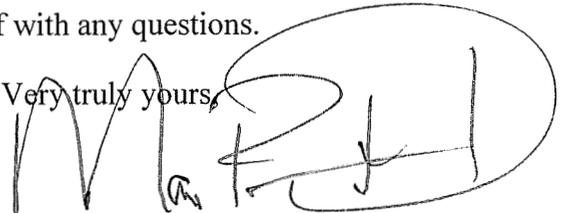
RE: Case No. 2012-00367

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and eight copies each of Kentucky Power Company's Responses to the Third Data Requests of Staff and the Attorney General. By copy of this letter, the Responses are being served on counsel for the Attorney General and Kentucky Industrial Utility Customers, Inc.

Please do not hesitate to contact me if with any questions.

Very truly yours,


Mark R. Overstreet

MRO

Enclosures

cc: Jennifer Black Hans
Michael L. Kurtz

COMMONWEALTH OF KENTUCKY

RECEIVED

BEFORE THE

DEC 14 2012

PUBLIC SERVICE
COMMISSION

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

APPLICATION OF KENTUCKY POWER COMPANY)
TO AMEND ITS DEMAND-SIDE MANAGEMENT)
PROGRAM AND FOR AUTHORITY TO IMPLEMENT)
A TARIFF TO RECOVER COSTS AND NET LOST)
REVENUES AND TO RECEIVE INCENTIVES)
ASSOCIATED WITH THE IMPLEMENTATION OF)
THE PROGRAMS)

Case No. 2012-00367

KENTUCKY POWER COMPANY RESPONSES TO COMMISSION
STAFF'S THIRD SET OF DATA REQUESTS

December 14, 2012

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Commission Staff's First Request for Information, Item 7b, concerning the cost-effectiveness of the lighting projects conducted under the Commercial Incentive Program. Kentucky Power states that the Commercial Incentive Program is currently not cost-effective, but could become cost-effective if the following conditions were to occur:

At the level of 2011 actual expenditures the program will be cost-effective and pass the Total Resource Cost (TRC) test if there are 88 completed projects and each project saves on average 25,000 kWh and 5.5 kW; or

If the program can achieve at least the originally projected ratio of administrative costs to incentives paid and participants on average at least 25,000 kWh and 5.5 kW.

Also, refer to Kentucky Power's response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 17, concerning Kentucky Power's plans to meet the 2012 participation goals for the Commercial Incentive Program. The response states, in relevant part, "[since June 30th, the [implementation contractor] has hired one additional 'local' staff member to assist with customer visits and outreach activities. The Direct Install ('Express install' for promotion) has been introduced for small commercial customers and is primarily driven by local contractors."

- a. State whether the hiring of an additional local staff member by the implementation contractor has any impact on the number of projects needed to be completed and/or the average energy and demand savings of each of those projects for the program to be cost-effective. If so, provide the revised number of completed projects and the average energy and demand savings of each project.
- b. Describe the Direct Install or Express Install promotion.

RESPONSE

- a. Because there is no incremental program cost associated with the additional staff member, no adjustment is necessary. The additional staff member supports existing program goals.

- b. Promotion includes direct meetings with trade allies to review the program and provide training on the web-based assessment tool available to qualified participants. A promotional letter was issued to 54 trade ally companies. A separate Company web-page is being developed which will provide information for the Direct Install (Express) program.

WITNESS: E J Clayton

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 1, Residential Efficient Products Program. It states the following:

Establish separate goals for standard CFL bulbs and non-standard CFL bulbs, These bulbs have different incentive amounts and separation will better allow Kentucky Power to determine the progress of the program and remain with budget.

Add incentive for LED bulbs. The LED bulb market is maturing and costs are decreasing and LEDs are the next step in efficient lighting. EM&V contractor and implementation contractor to evaluate new measure saving impact based on proposed product offering.

- a. State what goals would be established for standard CFL bulbs and non-standard CFL bulbs.
- b. State what the incentive for LED bulbs would be.
- c. If there were to be an incentive for LED bulbs, state whether the LED portion of the Residential Efficient Products Program would be cost-effective.

RESPONSE

- a. The program evaluation recommended 150,000 standard CFL and 25,000 non-standard CFL bulbs as an annual goal, with the final targets to be determined by joint review with the program vendor. Based on review and contract development with the program vendor, the standard CFL target levels will be 162,090 for year 2013; 180,135 for year 2014; and 198,203 for program year 2015. The non-standard CFL targets are 18,010 for year 2013; 20,015 for year 2014; and 22,022 for program year 2015.

- b. The average incentive for LED bulbs is forecast at \$10 for year 2013, \$8 for year 2014, and \$7 for year 2015. The price forecasts are pending contract completion with the program implementation contractor, but the contract has not been finalized.
- c. Although the LED incentive measure is being evaluated, no determination has been made about cost-effectiveness.

WITNESS: E J Clayton

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 1, HVAC Diagnostic and Tune-up Program.

- a. Confirm that contractor incentives will decrease from \$50 to \$25.
- b. Confirm that residential customer's incentives will decrease from \$50 to \$30.
- c. Confirm that commercial customer's incentives will decrease from \$75 to \$30.
- d. Confirm there will be no residential or commercial customer incentive for air conditioners, only for heat pumps, for those customers.

RESPONSE

a-d. Confirmed.

WITNESS: E J Clayton

Error

An error occurred while processing this page. See the system log for more details.

RESPONSE

- a. Confirmed, please see part b for explanation.
- b. For program administration, the customer incentive for the Direct Install program will not exceed 70% of the installed equipment cost of qualifying energy-efficient products. The total installed equipment cost will be determined from actual customer invoices.
- c. The maximum annual incentive of \$20,000 per project and customer account, as was included in the original program filing in Case No. 2010-0198, will remain in effect.
- d. The 100 kW peak demand is the program guideline for specifying eligibility as a small commercial/business account. Although the demand requirement for small commercial was not specifically identified with the original program filing for the Commercial Incentive program, it is included with the original program filing in Case No. 2010-00095 for the Commercial High Efficiency Heat Pump/Air Conditioner Program.

WITNESS: E J Clayton

¹Joint Application Pursuant to 1994 House Bill No 51 for the Approval of Kentucky Power Company Collaborative Demand-Side Management Programs and for Authority to Recover Costs, Net Lost Revenues and Receive Incentives Associated with the Implementation of One New Combined Residential/Commercial and One Commercial Demand-Side Management Program Beginning August 2, 2010 (KY PSC Oct 15, 2010)

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 2. State whether Kentucky Power has executed a contract with Consert Inc., and if so, provide a copy.

RESPONSE

Kentucky Power has signed the contract and submitted it to Consert, Inc. Once signed by both parties, Kentucky Power will provide a copy to the Commission.

WITNESS: E J Clayton

Kentucky Power Company

REQUEST

Refer to the following table provided by Kentucky Power in response to Staff's Second Request, Item 14a.

PJM Delivery Year (\$MW-day)	Resource Clearing Price
2009/2010	\$102.04
2010/2011	\$174.29
2011/2012	\$110.00
2012/2013	\$ 16.46
2013/2014	\$ 27.73
2014/2015	\$125.99
2015/2016	\$136.00

Also, refer to the response to Staff's Second Request, Item 14b. It states the following:

KPCo can not provide the specific capacity cost in response to this request. KPCo DSM programs involve the installation of energy efficiency measures that provide benefits over multiple years. Thus, depending on the measure, the PJM capacity price (or forecast) for as many as 20 years may, in part, determine the cost effectiveness of a measure installed today. In addition, avoided capacity is not the sole determinant of cost-effectiveness. In fact, avoided capacity is typically a smaller component of avoided costs than is the avoided energy value. Additionally, program delivery costs are another component of cost-effectiveness that would have to be considered.

- a. Explain the impact on cost-effectiveness in the years 2009 to 2012, when the resource clearing price for a PJM Delivery Year was in excess of \$100 per MW-day versus the resource clearing price of \$16.46/MW-day for PJM Delivery Year 2012/2013 and what the impact will be on cost-effectiveness of the resource clearing price of \$27.72/MW-day for PJM Delivery Year 2013/2014.
- b. State the type(s) of program delivery costs that are another component of cost-effectiveness that must be considered.

- c. Explain how the program delivery costs are going to change in future program evaluations so that the programs become cost-effective.
- d. Describe the program delivery system and state whether the program delivery differs by program.

RESPONSE

- a. One component of the cost-effectiveness of a DSM program is the present value of capacity avoided (benefits). Other components of cost-effectiveness are the avoided cost of energy (benefit) and the measure and program costs (costs). In most energy efficiency programs, capacity (and energy) is avoided for multiple years (the life of the measure). The value of the capacity varies by year depending on market conditions, as in the table above. The higher those capacity prices are, on average, over the span of years covered by the life of the measure, the more cost-effective the program will be. If these programs had been implemented in 2009 or other years when the capacity (and energy) costs were initially higher than present, it may have improved the cost-effectiveness, but it is difficult to say for certain as cost-effectiveness is determined over a multiple year period that includes the current period of depressed prices. Sensitivities of cost-effectiveness calculations can be instructive to show the possible ranges of outcomes given the "risk" of lower capacity and energy costs.
- b. Program delivery costs that factor into the Total Resource Cost (TRC) test include administrative and marketing costs associated with the program. Other program costs, specifically consumer incentives, factor into the other three commonly used cost-effectiveness tests: Participant, Ratepayer Impact Measure (RIM) and Utility.
- c. The Company will use the recommendations from the program evaluations, as described in the responses to various data requests in this case, to administer the programs on an ongoing basis. Implementation of these program recommendations should reduce the overall program expense per unit of energy saved, thereby increasing the cost-effectiveness and resulting in improved performance at the next evaluation.
- d. Program delivery does differ by program. Two programs, the Commercial Incentive and Residential Efficient Products programs, will continue to use third-party contractor resources. Although the Company currently is evaluating whether an external implementation contractor could be effectively utilized to administer the HVAC programs recommended for three-year extension, the Company currently manages this program in-house.

WITNESS: E J Clayton

Kentucky Power Company

REQUEST

Provide by program, the current 2012 year-to-date participation levels, direct program expenditures, and explain whether Kentucky Power will reach the 2012 goal.

RESPONSE

Page 2 of this response provides the program participant and expense levels, reconciled through October 2012. November reconciliation is pending.

For the programs referenced as 'Trending Low' the following comments may help explain the status:

The all-electric weatherization service for the Target Energy Efficiency (TEE) program has been impacted by reduced funding to Community Action Agencies that support and administer the program.

The Mobile Home New Construction and Small Commercial AC HP continue to be promoted directly by KPCo staff through site visits and calls to participating HVAC dealers.

For the Commercial Incentive program, the implementation contractor confirmed 201 active projects as of December 6, 2012. Also, 80 projects have been paid with the remaining customer projects in various stages of completion. It is assumed the participant and energy savings goals will be achieved if the majority of active projects are completed; however, this is dependent upon the customer completing equipment installation, receiving final inspection, and submitting the project information required for the final approval. The implementation contractor is actively using local field personnel for customer calls and site visits for post inspection. Shared resources from the implementation contractor central office are actively pursuing customer updates through emails and phone calls.

The Pilot Load Management program will use a new marketing promotion which will be coordinated by the program implementation contractor following the completion of a revised vendor agreement.

WITNESS: E J Clayton

RESIDENTIAL and COMMERCIAL PROGRAMS

**KPCo 2012 Programs
 Through October 2012**

Program Description	TOTAL YTD COST	ANNUAL BUDGET*	ACTUAL PARTICIPANTS YTD	TARGET PARTICIPANTS/UNITS	Forecast Status
TEE - All Electric	\$252,816	\$397,500	181	390	Trending Low
TEE - Base Load	\$2,437	\$2,500	17	35	Ok
Mobile Home Heat Pump	\$89,500	\$94,500	200	210	OK
New Construction - Mobile Home	\$73,950	\$104,750	132	190	Trending Low
Modified Energy Fitness Program	\$358,464	\$427,000	1,060	1,200	OK
Energy Education for Students	\$18,319	\$31,700	1,246	2,000	OK
Community Outreach CFL	\$55,825	\$58,500	5,641	4,800	OK
HEHP - Resistance Heat & Non Resistance Heat	\$233,150	\$337,500	521	750	OK
Residential Efficient Products - units	\$271,645	\$355,205	96,431	133,143	OK
Small Commercial AC HP	\$26,426	\$50,474	18	60	Trending Low
HVAC Diagnostic and Tune-up	\$106,314	\$158,640	847	1,170	OK
Commercial Incentive	\$596,954	\$1,630,725	48	172	Trending Low
Residential Commercial Load Management - switches	\$216,427	\$303,185	100	240	Trending Low

NOTES:

* Annual Budget: Case 2012-00051 approved May 30, 2012.

August 15, 2012 PSC Filing includes recommended target adjustment for year;

- o TEE All Electric budget reduced to \$301,500; 275 participants
- o TEE base budget reduced to \$1,785; 25 participants
- o HEHP budget is reduced to \$292,500; 650 total participants (175 resistance, 475 non-resistance)

Kentucky Power Company

REQUEST

If the programs evaluated continue not to be cost-effective, explain why the Kentucky Public Service Commission should continue approving or authorizing the continuation of these non-cost-effective programs.

RESPONSE

The five programs evaluated in 2012 were relatively new. Evaluating a program early in its development provides an opportunity to assess improvements early in the program and the opportunity to include recommended changes which can improve program performance with future operation. But, early evaluations of programs include nonrecurring start-up costs and implementation expenses that often have a negative impact on the cost-effectiveness of the programs.

The Company is utilizing the recommendations from the five program evaluations. Utilizing the recommendations should help to improve the overall program operation and cost-effectiveness. If the programs are deemed as non-cost-effective during the next evaluation and there are no recommended modifications to improve the program performance, the Company will consider recommending elimination of the non-cost-effective DSM program(s).

The Company plans to maintain a robust and diverse DSM portfolio for both residential and commercial customers. Having energy efficiency products available for weatherization improvements, lighting, HVAC, and direct load control systems provides a benefit to KPCo customers. As set forth above, it is the Company's intention to maximize cost-effectiveness of all DSM programs.

WITNESS: E J Clayton

Kentucky Power Company

REQUEST

Provide the date of the first billing cycle for the revenue months from January 2013 to April 2013.

RESPONSE

Please see table below:

<u>Billing Month</u>	<u>Date of First Billing Cycle</u>
January 2013	December 31, 2012
February 2013	January 30, 2013
March 2013	February 28, 2013
April 2013	April 1, 2013

WITNESS: E. J. Clayton