

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF THE)	
REASONABLENESS OF THE DEMAND SIDE)	CASE NO.
MANAGEMENT PROGRAMS AND RATES OF)	2017-00097
KENTUCKY POWER COMPANY)	

ORDER

Pursuant to KRS 278.260 the Commission, on its own motion, opens an investigation of the reasonableness of Kentucky Power Company's ("Kentucky Power") demand side management ("DSM") programs. This investigation is necessary due to an approximately 2,000 percent increase over the last year in the DSM rates charged to Kentucky Power's customers, and in light of the worsening economic conditions in its service territory. Kentucky Power's residential customers this time last year paid a monthly average DSM charge of \$.51. Today the average monthly charge is \$10.61.

DISCUSSION

On March 11, 2016, in Case No. 2015-00271, the Commission approved new DSM program modifications and rates for Kentucky Power.¹ In that case, the Commission, among other things, approved an increase of Kentucky Power's residential DSM rates from \$0.000383 per kilowatt-hour ("kWh") to \$0.003159 per kWh. This

¹ Case No. 2015-00271, *Application of Kentucky Power Company for (1) Authority to Modify Certain Existing Demand-Side Management Programs; (2) Authority to Implement New Programs; (3) Authority to Discontinue Certain Existing Demand-Side Management Programs; (4) Authority to Recover Costs and Net Lost Revenues, and to Receive Incentives Associated with the Implementation of the Programs; and (5) All Other Required Approvals and Relief* (Ky. PSC Mar. 11, 2016).

increased the average monthly DSM charge for a customer using 1,324 kWh per month from \$0.51 to \$4.18.

On December 29, 2016, in case No. 2016-000281, the Commission approved new DSM program modifications and rates for Kentucky Power Company.² In that case, the Commission, among other things, approved an increase of Kentucky Power's residential DSM rates from \$0.003159 per kWh to \$0.008013 per kWh. This increased the average monthly DSM charge for a customer using 1,324 kWh per month from \$4.18 to \$10.61³.

Subsequent to Kentucky Power's most recent DSM rate case, the Commission expressed its concern with increasing costs of electric utilities' DSM programs and declared its intent to more closely review such programs, particularly with regard to the

² Case No. 2016-00281, *Electronic Application of Kentucky Power Company for (1) Authority to Expand Its Appliance Recycling Program to Include Commercial Customers; (2) Authority to Recover Costs and Net Lost Revenues, and to Receive Incentives Associated With the Implementation of the Programs; (3) Report In Compliance with the Commission's March 11, 2015 Order In Case No. 2015-00271 Regarding Industrial Customers; (4) Leave to Dispense with Filing Monthly DSM Reports; and (5) All Other Required Approvals and Relief* (Ky. PSC Dec. 29, 2016).

³ Kentucky Power's residential DSM rate exceeds that of the other investor-owned utilities in Kentucky. For example, Duke Energy Kentucky, Inc.'s rate is \$0.00735 per kWh, Louisville Gas and Electric Company's is \$0.00416 per kWh, and Kentucky Utility Company's is \$0.00316 per kWh.

cost-effectiveness of each DSM program.⁴ However, in the case of Kentucky Power, the recent increases in the DSM charges have exacerbated an already bleak economic situation for many of Kentucky Power's customers. The Commission determined immediate action was necessary and decided not to wait until Kentucky Power files its next DSM application before conducting a review of Kentucky Power's DSM programs and rates. The Commission will evaluate the DSM programs, including their benefits and overall cost effectiveness, in a region facing declining load.

Kentucky Power provides electricity service to approximately 168,000 customers⁵ in all or part of 20 counties in Eastern Kentucky.⁶ Kentucky Power's service territory, generally, includes several economically distressed regions, where employment has

⁴ See e.g., PSC Case No. 2016-00289, *Electronic Application of Duke Energy Kentucky, Inc. to Amend Its Demand Side Management Programs*, (Ky. PSC Jan. 24, 2017) at 15. (Emphasis added.)

While the Commission has found that Duke Kentucky's proposed DSM portfolio and surcharges are reasonable and should be approved, the Commission further finds that Duke Kentucky should continue to scrutinize the results of each existing DSM program measure's cost-effectiveness test and provide those results in future DSM cases, along with detailed support for future DSM program expansions and additions. Duke Kentucky should also be mindful of the increasing saturation of energy efficient products, and be watchful for the opportunity to scale back on programs offering incentives for behavior that may be dictated by factors other than the incentives. The Commission is concerned about the increasing number of utility DSM programs and the associated increase in costs to ratepayers, particularly as the costs of the programs are borne by all customers in a rate class and are not limited to the participants in the DSM programs. *Therefore, the Commission will apply greater scrutiny in its review of all future DSM filings, with a particular emphasis on reviewing the cost-effectiveness of each program and measure.*

⁵ See Integrated Resource Planning Report to the Public Service Commission ("IRP"), Case No. 2016-00413, *Electronic 2016 Integrated Resource Planning Report of Kentucky Power Company to the Public Service Commission*, (filed Dec. 20, 2016).

⁶ The counties are: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike, and Rowan. 2015 Annual Report at 4.

decreased by approximately 15 percent.⁷ Federal census data show that 30.2 percent of the population in the counties in Kentucky Power's service territory lives below the federal poverty line.⁸ This compares to the Kentucky average of 18.5 percent, and the national average of 14.7 percent.⁹ The median household income in the service territory is \$32,621, versus \$43,470 for Kentucky and \$55,775 nationwide.¹⁰ Since 2008 the median household income in Kentucky Power's service territory has declined by an average of 4.2 percent.¹¹ Approximately 40.2 percent of the personal income in the counties in Kentucky Power's service territory comes from government benefit programs such as Social Security, whereas the nationwide average is 17.6 percent.¹²

Kentucky Power has experienced loss of both customers and electric load. In the past 15 years, Kentucky Power has lost approximately 8,000 residential customers.¹³ In 2005 its highest summer demand was 1,358 MW and its highest winter demand was 1,685 MW, compared with a summer peak of 1,044 MW and a winter peak of 1,342 MW in 2016.¹⁴ Kentucky Power projects that over the next 15 years its

⁷ 2016 Integrated Resource Plan, Section 1.5.

⁸ <http://www.census.gov/did/www/saipe/data/statecounty/data/2015.html> (Last visited Feb. 7, 2017.)

⁹ *Id.*

¹⁰ *Id.*

¹¹ <http://www.census.gov/did/www/saipe/data/statecounty/data/2007.html> (Last Visited Feb. 7, 2017).

¹² http://www.nytimes.com/interactive/2012/02/12/us/entitlement-map.html?src=tp&_r=0 (Last visited Feb. 7, 2017.)

¹³ Integrated Resource Plan, Section 1.5.

¹⁴ *Id.*, Section 1.3.

customers, retail sales, and internal energy demands will decline by 0.2 percent per year, and its peak demand will decline by 0.3 percent per year.¹⁵

Kentucky Power's annual spending on DSM programs has increased over 100 percent in the past three years. The increase is due to a non-unanimous stipulation agreement the Commission approved in 2013 as part of a case approving Kentucky Power's plans to acquire a 50 percent interest in the Mitchell Generating Station.¹⁶ Kentucky Power acquired the interest in the Mitchell Generating Station to replace generation that was to be lost due to Kentucky Power's retirement of its Big Sandy Unit #2. Prior to retiring Big Sandy Unit #2, Kentucky Power, in order to meet federal environmental requirements, proposed, and subsequently withdrew, its plans to construct pollution control equipment at the unit at a projected capital cost of \$940,300,067.¹⁷

The non-unanimous stipulation agreement into which Kentucky Power entered with Kentucky Industrial Utility Customers, Inc., Alexander DeSha, Tom Vierheller, Beverly May, and the Sierra Club provided that Kentucky Power's DSM spending would be \$3,000,000 in 2013, increasing to \$4,000,000 in 2014, to \$5,000,000 in 2015, and to \$6,000,000 in 2016, 2017, and 2018. While the terms of the stipulation agreement were approved, as modified, by the Commission, it is time for additional analysis because of

¹⁵ *Id.*, Section 2.1.

¹⁶ Case No. 2012-00578, *Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred In Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief* (Ky. PSC Oct. 7, 2013).

¹⁷ Case No. 2011-00401, *Application of Kentucky Power Company for Approval of Its 2011 Environmental Compliance Plan, for Approval of Its Amended Environmental Cost Recovery Surcharge Tariff, and for the Grant of a Certificate of Public Convenience and Necessity for the Construction and Acquisition of Related Facilities*. (Ky. PSC May 31, 2012.)

changing circumstances. This investigation will review the reasonableness of Kentucky Power's elective DSM programs, rates, and costs against the backdrop of the economic condition of its customers and the region in which Kentucky Power serves. DSM programs may benefit some customers by reducing their total electricity bills, but in times of declining load, it is appropriate to consider the level of spending that Kentucky Power must incur due to the stipulation agreement and Commission direction. Conditions have materially changed since the stipulation agreement was entered into, and subsequent Commission Orders addressing Kentucky Power's DSM programs and the Commission must evaluate whether continuing the current programs and level of spending are reasonable and in the best interests of customers, given the circumstances discussed herein.

Based on the foregoing, and being otherwise sufficiently advised, IT IS HEREBY ORDERED that:

1. Pursuant to KRS 278.260, an investigation is opened to review the appropriateness of Kentucky Power's DSM programs, the level of spending on such programs, and the reasonableness of the resulting DSM rates.

2. The Commission adopts the procedural schedule set forth in Appendix A to this Order, which is incorporated by reference herein.

3. a. Kentucky Power shall file with the Commission, on or before March 17, 2017, its responses to all requests for information listed in Appendix B to this Order. Responses to requests for information in paper medium shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, an original and eight copies in paper medium and an electronic version to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. A party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

f. A party filing testimony shall comply with the electronic filing procedures set forth in 807 KAR 5:001, Section 8, and shall file with the Commission an original in paper medium and an electronic copy.

g. A party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

4. Intervenors may serve interrogatories and requests for production of documents upon Kentucky Power in accordance with the procedural schedule set forth in Appendix A to this Order.

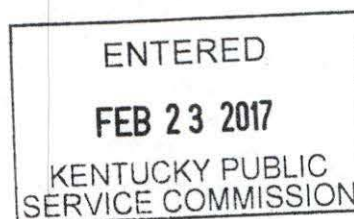
5. The records of Case Nos. 2015-00271 and 2016-00281 are incorporated by reference into this proceeding.

6. Any motion to intervene filed after March 24, 2017, shall show a basis for intervention and good cause for being untimely. If the untimely motion is granted, the movant shall accept and abide by the existing procedural schedule.

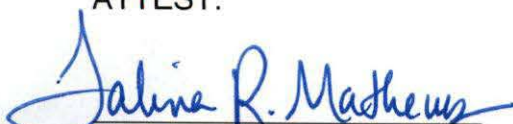
7. Any intervening party that intends to file testimony in this matter shall advise the Commission in writing of its intent to do so and shall, no later than April 14, 2017, move for modification of the procedural schedule, if necessary, to permit the filing of its testimony.

8. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00097 DATED **FEB 23 2017**

- Kentucky Power shall file with the Commission the responses to requests for information set forth in Appendix B no later than..... 03/17/2017
- All requests for intervention shall be filed by 03/24/2017
- Intervenors and Commission Staff may serve interrogatories and requests for production of documents upon Kentucky Power no later than 04/14/2017
- Kentucky Power shall file with the Commission responses to interrogatories and requests for production of documents no later than 05/05/2017
- Intervenors and Commission Staff may serve supplemental interrogatories and requests for production of documents upon Kentucky Power no later than 05/19/2017
- Kentucky Power shall file with the Commission responses to Supplemental interrogatories and requests for production of documents no later than..... 06/09/2017

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00097 DATED **FEB 23 2017**

1. a. Confirm that Kentucky Power generating capacity includes Kentucky Power's 50 percent undivided interest in the Mitchell Plant of 780 megawatts ("MW"), 280 MW from the Big Sandy Unit 1, and 393 MW from Rockport Plant for a total of 1,453 MW.

b. Confirm that Kentucky Power is a winter-peaking system.

c. Confirm that Kentucky Power's 2015 winter peak was 1,342 MW, per Case No 2016-00413.

d. Confirm that Kentucky Power's 2015 summer peak was 1,097 MW, per Case No 2016-00413.¹⁸

e. Provide Kentucky Power's 2016 winter and summer peaks.

f. Explain whether Kentucky Power currently has surplus or excess generation.

2. Explain whether Kentucky Power's overall customer base and load have been declining over the past few years.

3. a. Confirm that Kentucky Power is obligated to spend \$6.0 million per year in DSM program spending through 2018, and beyond.

b. If it is confirmed that Kentucky Power's customer base and load have declined, explain whether DSM program spending should continue at the current level, considering the current economic conditions in its service territory and the number of various surcharge riders on its customers' monthly bills. Explain what also should be

¹⁸ Integrated Resource Plan.

considered if there are programs in its DSM portfolio that the Commission or Kentucky Power determine are not cost effective.

4. Even though Kentucky Power currently offers no industrial DSM programs, and many of its industrial customers have their own in-house energy conservation and energy-efficiency (“EE”) initiatives, state whether Kentucky Power has received any inquiries as to available grants, subsidies or low-interest loans for energy conservation or EE that may help those customers remain economically stable or market competitive.

5. a. For current DSM programs provide:

(1) The annual cost per program for the past three years; and

(2) The projected annual costs for the next two years.

b. For each of Kentucky Power’s current DSM program offerings, provide the results of the Total Resource Cost cost-benefit analysis along with the supporting calculations.

6. Identify what Kentucky Power believes to be an appropriate level of annual funds to spend on DSM programs.

7. Referring to the answer to Request No. 6, assuming those levels of spending, identify the DSM programs that Kentucky Power would offer at that level of expense.

8. Explain whether Kentucky Power has considered a prepay meter program, and if so, whether there are any barriers to implementing such a program.

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