

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	)	
POWER COMPANY FOR: (1) APPROVAL OF	)	
CONTINUATION OF ITS TARGETED ENERGY	)	
EFFICIENCY PROGRAM; (2) AUTHORITY TO	)	
RECOVER COSTS AND NET LOST REVENUES,	)	
AND TO RECEIVE INCENTIVES ASSOCIATED	)	CASE NO.
WITH THE IMPLEMENTATION OF ITS DEMAND-	)	2021-00420
SIDE MANAGEMENT PROGRAMS; (3)	)	
ACCEPTANCE OF ITS ANNUAL DSM STATUS	)	
REPORT; (4) AUTHORIZATION TO CONDUCT A	)	
MARKET POTENTIAL STUDY; AND (5) ALL	)	
OTHER REQUIRED APPROVALS AND RELIEF	)	

ORDER

On November 15, 2021, Kentucky Power Company (Kentucky Power) filed an application pursuant to KRS 278.285(1) for approval to continue its Targeted Energy Efficiency (TEE) Program through December 22, 2022, and authority to recover, through its Demand-Side Management (DSM) surcharge, the full costs, including lost revenues and incentives, associated with Kentucky Power’s programs through December 31, 2022. Kentucky Power further requested approval of its DSM Status Report, the corresponding tariffs, the proposed residential DSM surcharge, the elimination of Kentucky Power’s commercial DSM factor and the authority to establish a regulatory asset or regulatory liability for any over- or under-recovery of the commercial DSM program. Finally, Kentucky Power requested authority to conduct a market potential study and the authorization to recover all reasonable costs incurred in connection with the market potential study. There are no intervenors, and Kentucky Power responded to one request

for information. The matter is submitted to the Commission for a decision based upon the evidentiary record.

#### LEGAL STANDARD

KRS 278.285(1) authorizes the Commission to review and approve the reasonableness of DSM programs proposed by any utility under its jurisdiction. The statute lists multiple factors the Commission can consider when determining the reasonableness of the DSM programs. The listed factors in KRS 278.285(1) are:

- (a) The specific changes in customers' consumption patterns which a utility is attempting to influence;
- (b) The cost and benefit analysis and other justification for specific demand-side management programs and measures included in a utility's proposed plan;
- (c) A utility's proposal to recover in rates the full costs of demand-side management programs, any net revenues lost due to reduced sales resulting from demand-side management programs, and incentives designed to provide positive financial rewards to a utility to encourage implementation of cost effective demand-side management programs;
- (d) Whether a utility's proposed demand-side management programs are consistent with its most recent long-range integrated resource plan;
- (e) Whether the plan results in any unreasonable prejudice or disadvantage to any class of customers;
- (f) The extent to which customer representatives and the Office of the Attorney General have been involved in developing the plan, including program design, cost recovery mechanisms, and financial incentives, and if involved, the amount of support for the plan by each participant, provided however, that unanimity among the participants developing the plan shall not be required for the commission to approve the plan;
- (g) The extent to which the plan provides programs which are available, affordable, and useful to all customers; and

(h)Next-generation residential utility meters that can provide residents with amount of current utility usage, its cost, and can be capable of being read by the utility either remotely or from the exterior of the home.

KRS 278.285(1) also states the factors listed are not exhaustive, the Commission can consider anything that will help determine if the programs are reasonable.

### KENTUCKY POWER DSM PROGRAMS

Kentucky Power currently offers only one DSM program as a result of the Commission-initiated investigation into the reasonableness of Kentucky Power's DSM programs in Case No. 2017-00097.<sup>1</sup> In that case, the Commission ordered the elimination of all offerings except for those programs that target income-eligible residential customers until Kentucky Power's capacity position indicates a need for additional generation to serve its load.<sup>2</sup> Consistent with the Order, Kentucky Power's current DSM portfolio consists of only the residential TEE program.

Administered through community action agencies (CAA) in Kentucky Power's service area, the TEE program is designed to improve energy efficiency (EE) for low-income customers through energy audits coupled with the installation of various energy conservation measures. The TEE program is available to Kentucky Power customers whose primary heat source is electricity and who use an average of at least 700 kWh per month. In addition, limited efficiency measures are available to Kentucky Power customers whose primary heat source is not electric but who have electric water heaters and use an average of at least 700 kWh of electricity per month from November through March.

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<sup>1</sup> Case No. 2017-00097, *Electronic Investigation of the Reasonableness of the Demand Side Management Programs and Rates of Kentucky Power Company* (Ky. PSC Jan. 18, 2018).

<sup>2</sup> Application, paragraph 5.

Kentucky Power is not proposing any changes to how the TEE program operates, but is requesting approval to increase the TEE Program's budget from its current funding level of \$274,400 to \$281,000 in 2022.<sup>3</sup> This budget increase is due to a proposed modification to the existing program. This modification reduces the number of heat pump to heat pump exchanges while increasing the number of central furnace to heat pump exchanges. Kentucky Power noted that the current budget allows for 104 participants, but due to the increased customer incentive for the furnace to heat pump exchange, the number of participants will lower to 98, which matches 2021 participation levels.<sup>4</sup> Kentucky Power noted that only two heat-pump-to-heat-pump exchanges have been funded but do not request discontinuing this option as heat pumps have an estimated useful life of 15–20 years, thus the need to be replaced may not have been realized.<sup>5</sup>

#### PROPOSED DSM FACTORS

The proposed residential DSM surcharge includes the TEE ongoing program expenses, budget increase, incentives, and Net Lost Revenues for former DSM programs that concluded in 2018 as well as any over collections from the prior period. Kentucky Power's current residential DSM factor is \$0.000131 per kWh, which it proposed to increase to \$0.000139 per kWh and results in a monthly charge of \$0.18 for the average residential customer using 1,300 kWh per month.<sup>6</sup> The basis for the proposed DSM factor is included in Exhibit 5 of the application.

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<sup>3</sup> Application, paragraphs 10 and 11; Direct Testimony of Scott E. Bishop (Bishop Testimony) at 4.

<sup>4</sup> Application, paragraphs 12 and 14; Bishop Testimony at 4–5.

<sup>5</sup> Kentucky Power's Response to Staff's First Request for Information, Item 2.

<sup>6</sup> Bishop Testimony at 7.

Regarding the commercial DSM rider, the surcharge factor has been charged so that the program could wind down and to account for any over- and under-collection reconciliations.<sup>7</sup> At the end of 2021, Kentucky Power estimated the balance will be an over-recovery of approximately \$2,855.<sup>8</sup> Noting that it is not practical to eliminate this small credit balance through bill credits, Kentucky Power proposed to eliminate its commercial DSM surcharge as of cycle 1 of the January 2022 billing and proposed to defer the over-recovery as a regulatory asset. Kentucky Power stated that that the proposed regulatory asset will not receive a carrying charge and that the balance will be addressed in Kentucky Power's 2022 annual DSM filing.<sup>9</sup>

#### MARKET POTENTIAL STUDY

In the application, Kentucky Power also requested to perform a market potential study for future DSM programs. This request is in response to the change in their capacity position due to the expiration of the Rockport Unit Power Agreement (Rockport UPA) on December 7, 2022.<sup>10</sup> This study will take into account the technical feasibility of programs, their cost-effectiveness, market and adoption barriers, and program design, budget, staffing, and time constraints in the determination of potential programs.<sup>11</sup> The last study was conducted in 2014 and Kentucky Power stated that the 2014 study is no longer current and cannot serve as a reasonable basis for the identification and

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<sup>7</sup> Application, paragraph 23; Bishop Testimony at 6.

<sup>8</sup> Application, paragraph 25; Bishop Testimony at 6.

<sup>9</sup> Kentucky Power's Response to Staff First Request, Item 1; Application, paragraph 27; and Bishop Testimony at 7.

<sup>10</sup> Application, paragraphs 29–30; Bishop Testimony at 8–9.

<sup>11</sup> Application, paragraph 31.

implementation of DSM and EE programs.<sup>12</sup> Kentucky Power stated it will issue a request for proposals after authority is granted and file for Commission review and approval of any possible future DSM program. Kentucky Power also noted that the proposed market potential study will assist in identifying additional low-income DSM and EE programs. The costs of the proposed study is not included in the 2022 budget.<sup>13</sup> Kentucky Power noted that its reasonable costs are recoverable under KRS 278.285(2)(a) and will present any costs to the Commission for review and approval in a future DSM application.<sup>14</sup>

### DISCUSSION

The Commission has reviewed the proposed modification to the TEE Program and finds that the modifications are reasonable based on the factors in KRS 278.285(1). Therefore, Kentucky Power's request for the continuation of the TEE program through December 31, 2022, should be granted. Additionally Kentucky Power's proposed DSM surcharge factor of \$0.000139 per kWh for residential customers is reasonable for the recovery of the full costs of the DSM programs, including net revenues lost due to reduced sales resulting from DSM programs. The Commission also finds that Kentucky Power's proposal to eliminate the commercial surcharge to be reasonable as the remaining over-recovery is not practical to charge through a bill credit that is based upon annual usage and that a regulatory asset or regulatory liability is approved, as filed. Kentucky Power is to file the total under- or over-recovery that will comprise this regulatory asset or regulatory liability once the total is determined. The Commission also finds that Kentucky

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<sup>12</sup> Application, paragraph 32; Bishop at 9.

<sup>13</sup> Kentucky Power's Response to Staff's First Request, Item 4.

<sup>14</sup> Application, paragraph 37.

Power has kept the Commission informed of the progress and status of its DSM programs by timely filing summary status reports of these programs.

In Case No. 2017-00097, the Commission directed Kentucky Power to “eliminate offering any DSM programs, other than those programs that target income eligible residential customers, until there is a change in Kentucky Power’s capacity position that indicates a need for additional generation to serve its load.”<sup>15</sup> With the December 7, 2022 expiration of the Rockport UPA, Kentucky Power will require additional capacity in the form of additional generation or contract capacity.<sup>16</sup> Therefore, the Commission finds that a market potential study should be conducted to determine a suite of DSM and EE programs that are cost effective and avoid more expensive supply-side resources. The Commission encourages Kentucky Power to aggressively pursue cost-effective DSM programs given the high avoided capacity costs that will occur following the expiration of the Rockport UPA.

IT IS THEREFORE ORDERED that:

1. Kentucky Power’s request to continue the TEE program through December 31, 2022, is approved.
2. Kentucky Power’s proposed surcharge factor for residential customers is approved.
3. Kentucky Power’s request to eliminate Kentucky Power’s commercial DSM factor is approved.

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<sup>15</sup> Case No. 2017-00097, *Electronic Investigation of the Reasonableness of the Demand Side Management Programs and Rates of Kentucky Power Company* (Ky. PSC Jan. 18, 2018) at 13.

<sup>16</sup> Application, paragraph 30.

4. Kentucky Power's request to defer and establish a regulatory asset or regulatory liability in the amount of any final commercial DSM program under- or over-recovery is approved. The total over- or under-recovery included in this regulatory asset or regulatory liability shall be filed in the post-case correspondence file in this case.

5. Kentucky Power is authorized to conduct a market potential study for possible DSM and EE programs and recover reasonable costs incurred in connection with this study.

6. The surcharge factors set forth in the Appendix to this Order are approved for service rendered on and after January 1, 2022.

7. Within 20 days of this date of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, its revised tariffs as set forth in this Order reflecting that they were approved pursuant of this Order.

8. This case is closed and removed from the Commission's docket.



By the Commission



ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00420 DATED DEC 27 2021

The following rates and charges are prescribed for the customers served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission period to the effective date of this Order.

TARIFF D.S.M.C.

Residential

\$0.000139 per kWh

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