COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC ANNUAL COST RECOVERY FILING FOR DEMAND SIDE MANAGEMENT BY DUKE ENERGY KENTUCKY, INC.	)))	CASE NO. 2017-00427

ORDER

On August 15, 2017, pursuant to Case No. 2012-00495,[1] Duke Energy Kentucky, Inc. (Duke Kentucky), filed Case No. 2017-00324[2] requesting approval to amend one of its Demand-Side Management (DSM) programs, increase its non-residential DSM rate, and revise its Rider DSM. By Order entered on August 29, 2017, the Commission suspended Duke Kentucky's revised tariff for five months from the proposed effective date of September 15, 2017, through February 14, 2018.

Also pursuant to Case No. 2012-00495, on November 15, 2017, Duke Kentucky filed Case No. 2017-00427. This application included Duke Kentucky's Annual Status Report, Adjustment of the DSM Cost Recovery Mechanism to reflect the reconciliation of planned and actual expenditures, lost revenues, and shared savings, and Amended Tariff Sheets for Gas Rider DSMR and Electric Rider DSMR. This application also included an update to all of its DSM programs, including updated California Tests based on the 2018–2019 projected costs and benefits and support for the calculation of the DSM Rider, which

[1] Case No. 2012-00495, *Application of Duke Energy Kentucky, Inc. for the Annual Cost Recovery Filing for Demand Side Management* (Ky. PSC Apr. 11, 2013)

[2] Case No. 2017-00324 *Electronic Application of Duke Energy Kentucky, Inc. to Amend Its Demand Side Management Programs* (Ky. PSC Feb. 14, 2018)

included a reconciliation of the 2016–2017 DSM costs and revenues and the adjustments based on the 2018–2019 DSM program. By Order entered on December 11, 2017, the Commission suspended these revised DSM tariffs for five months from their proposed effective date of December 15, 2017, through May 14, 2018.

On January 8, 2018, Duke Kentucky filed a third DSM application, Case No. 2018-00009.[3] Here, Duke Kentucky proposed updates to the 2017–2018 fiscal year Non-Residential Smart Saver Prescriptive Program. These updates included the implementation of a reservation system, an increase in the fiscal year budget, the removal of several measures from the program, and incentive adjustments.

On February 14, 2018, the Commission issued an order finding that each of the DSM applications raised issues of whether or not the existing or the revised DSM programs are cost-effective. The Commission Order cited Duke Kentucky's response to a data request in Case No. 2017-00427, which stated that its generating capacity will exceed its projected load by 31 percent in 2018 and 2019, and by 29 percent in 2020.[4] Finding that these reserve margins far exceed the target range of reserve margins, acknowledged by Duke Kentucky to be 13 percent to 20 percent,[5] the February 14, 2018 Order stated that such a level of excess generating capacity indicated an avoided capacity cost at, or close to, zero. Therefore, the Commission found that an investigation would be necessary to determine the reasonableness of the DSM programs and tariffs. The Commission also ordered Duke Kentucky to take all reasonable steps to suspend all

[3] 2018-00009, *Application of Duke Energy Kentucky, Inc. to Amend Its Demand Side Management Programs* (KY. PSC Feb. 14, 2018).

[4] Case No. 2017-00427, Duke Kentucky's Response to the Attorney General's First Data Request, Item 1.

[5] *Id.*

existing DSM programs, except for the Low-Income Services and Neighborhood Programs, until sufficient information is filed to demonstrate clearly that all ratepayers benefit from being charged the costs of programs that are designed to reduce consumption.

The February 14, 2018 Order also consolidated Case Nos 2017-00324 and 2018-00009 into Case No. 2017-00427. The Attorney General's Office of Rate Intervention requested and was granted intervention in Case Nos. 2017-00324 and 2017-00427, and continued as an intervenor in the consolidation of the DSM issues into Case No. 2017-00427. The Commission further found that since the proposed DSM tariff from Case No. 2017-00427 was a rate decrease, the suspension period of the proposed residential tariff would be shortened and allowed to become effective on February 14, 1018, subject to prospective change.

On March 2, 2018, Duke Kentucky filed a request for rehearing arguing that the February 14, 2018 Order violated its right to due process by not first providing a hearing and was based on an erroneous finding that it has excess generating capacity. Duke Kentucky further stated that the Commission's calculation of high reserve margins is correct for an Integrated Resource Plan filing, which is used for planning purposes, but as a member of PJM Interconnection, LLC (PJM), the required reserve margin calculations reduce generation by a forced outage rate. Utilizing the forced outage rate methodology mandated by PJM, Duke Kentucky asserted that its future reserve margins will be 0.3 to 4.1 percent with DSM impacts and (1.6) to 2.3 percent without DSM impacts. On March 22, 2018, the Commission issued an order that granted rehearing and established a procedural schedule for the processing of this matter which included testimony, discovery and a hearing.

Duke Kentucky responded to three requests for information from Commission Staff and two from the Attorney General. A formal hearing was held on May 14, 2018. Duke Kentucky filed its responses to the post-hearing data requests from both Commission Staff and the Attorney General on June 1, 2018. Duke Kentucky filed a post-hearing Brief on June 27, 2018, the Attorney General filed a Response Brief on July 11, 2018, and Duke Kentucky filed a Reply Brief on July 18, 2018. The matter now stands submitted for a decision.

DUKE KENTUCKY DSM PROGRAM PORTFOLIO

Duke Kentucky's current DSM programs were originally approved in Case No. 2012-00085[6] and amended in subsequent annual DSM filings. The current suite of programs, as approved in Case No. 2016-00289[7] includes the following:[8]

1. Low-Income Services Program
2. Residential Energy Assessments Program
3. Energy Efficiency Education for Schools Program
4. Residential Smart Saver Efficient Residences Program
5. Residential Smart Saver Energy Efficient Products Program
6. Smart Saver Prescriptive Program

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[6] Case No. 2012-00085 *Application of Duke Energy Kentucky, Inc. for an Energy Efficiency Cost Recovery Mechanism and for Approval of Additional Programs for Inclusion in Its Existing Portfolio* (Ky. PSC June 29, 2018)

[7] Case No. 2016-00289, *Electronic Application of Duke Energy Kentucky, Inc. to Amend Its Demand-Side Management Programs* (Ky. PSC Jan. 24, 2017).

[8] For a complete description and update of these programs, see Duke Kentucky's application in Case No. 2017-00427 and its June 27, 2018 Brief.

7. Smart Saver Custom Program

8. Smart Saver Energy Assessments Program

9. Power Manager Program

10. PowerShare

11. Low-Income Neighborhood

12. My Home Energy Report

13. Non-Residential Small Business Energy Saver Program

14. Power Manager for Apartments

15. Power Manager for Business

16. Non-Residential Pay for Performance

PROPOSED CHANGES TO EXISTING PROGRAMS AND TARIFFS

Non-Residential Smart Saver Custom Incentive Program

In the application originally docketed as Case No. 2017-00324, Duke Kentucky requested to expand the scope of the Non-Residential Smart Saver Custom Incentive Program (Custom Program) by increasing the program budget from $610,068 to $2,138,189, along with a corresponding increase in the non-residential DSM rate from $0.002576 per kWh to $0.003208 per kWh.[9] The Custom Incentive Program encourages commercial customers to install high-efficiency equipment and provides incentive payments to offset a portion of the higher cost of the energy-efficient (EE) equipment. The budget for this program was filed in Case No. 2016-00382[10] and Duke Kentucky

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[9] Case No. 2017-00324 Application, paragraph 7.

[10] Case No. 2016-00382, *Electronic Annual Cost Recovery Filing for Demand Side Management by Duke Energy Kentucky, Inc.* (Ky. PSC Mar 28, 2017).

states a significant portion of the increased budget is a shifting of the fiscal year in which expenditures occurred. Some of the projected projects from the fiscal year ended June 2017 experienced delays so the associated costs were expected to occur in the fiscal year ending June 2018.[11] The remaining portion of the proposed increase in the program budget was in response to an increase in the forecasted kWh impact of the EE projects. The total energy savings impact of the projects is approximately three times higher than historical values and, therefore, the incentives are also three times higher.[12]

<u>Non-Residential Smart Saver Prescriptive Program</u>

Duke Kentucky requested approval of a number of amendments to the Non-Residential Smart Saver Prescriptive Program (Prescriptive Program) in the application originally docketed as Case No. 2018-00009. Similar to the Custom Program, the Prescriptive Program encourages the installation of high-efficiency equipment and provides incentive payments to offset a portion of the higher cost of the EE equipment. Both programs include a list of equipment that will qualify for incentives, but the key difference between the programs is that the Prescriptive Program allows a customer to submit an application up to 90 days after the EE equipment has been installed, whereas the Custom Program requires the customer to submit an application before beginning the EE project. Duke Kentucky has experienced an increase in customer applications under the Custom Program for the fiscal year ending June 2018, and the program costs had exceeded the forecasted costs halfway through the fiscal year. Duke Kentucky proposes to increase funding for the budget by $1,100,000 to continue offering the program,

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[11] Case No. 2017-00324 Application, paragraph 7.

[12] *Id.*

particularly to those who have already installed the EE measures but have not yet applied for the incentive.[13] Duke Kentucky also proposes to amend the current program tariff by removing some measure offerings and adjusting the incentives of other offerings.[14]

The final proposed amendment is the adoption of a reservation system with a pre-application requirement for the payment of rebates. Rather than allowing a customer to submit an application after the equipment is installed, the proposed reservation system will require the customer to submit a pre-application in advance of starting an EE project. This pre-application will determine the equipment qualification and reserve program funds, if available. The reservation system will allow funds to be reserved for 90 days, allow for extensions, and create a customer waiting list once all funds have been spent or reserved.[15]

Tariff Revisions

In the application in Case No. 2017-00324, Duke Kentucky proposed to update the current Rider DSM tariff to more clearly reflect how lost revenues are collected from residential customers and to adjust the shared savings percentage downward to reflect the current ten percent incentive level. Duke Kentucky notes that Rider DSM language has lagged behind in terms of description of the program as it has evolved over the last several years, and still reflects the former 15 percent level. The changes are to simplify and update the Rider DSM language.[16]

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[13] Case No. 2018-00009 Application, paragraph 3.

[14] See Case No. 2018-00009, Exhibit A of the offering removals and incentive updates.

[15] Case No. 2018-00009 Application, page 3, paragraph 2b.

[16] Case No. 2017-00324 Application, paragraph 12.

For Case No. 2017-00427, Duke Kentucky requests approval of revised DSM rate tariffs. Duke Kentucky included an Electric Rider DSMR and a Gas Rider DSMR. Both Riders recover projected July 1, 2018–June 30, 2019 program costs, lost revenues and shared savings, and contain a reconciliation of the actual DSM revenue requirement. [17]

Finally, Duke Kentucky submitted changes to the Prescriptive Program tariff to include the proposed reservation system and direct a customer to Duke Kentucky's website for the list of available prescriptive EE measures and their corresponding incentives.

PARTIES' COMMENTS

Duke Kentucky

Duke Kentucky filed testimony in support of its current DSM portfolio, particularly in support of the direct impact the DSM programs have on Duke Kentucky's participation in the PJM. Duke Kentucky states that as a member of PJM, Duke Kentucky has specific obligations with respect to serving customer load and these DSM programs allow Duke Kentucky to meet PJM requirements in a cost-effective manner.[18] In approving Duke Kentucky's request to become a member of PJM, the Commissioner's Order in Case No. 2010-00203[19] required Duke Kentucky to participate as a Fixed Resource Requirement (FRR) Entity in PJM. Under the FRR construct, a load-serving entity (LSE) like Duke Kentucky must annually submit a preliminary three-year forward and a final current year

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[17] See Case No. 2017-000427 Application, Exhibit B for DSM Rider calculations.

[18] Direct Testimony of Timothy J. Duff on Behalf of Duke Energy Kentucky, Inc. (Duff Testimony) at 18.

[19] Case No. 2010-00203 *Application of Duke Energy Kentucky, Inc. for Approval to Transfer Functional Control of Its Transmission Assets from the Midwest Independent Transmission System Operator to the PJM Interconnection Regional Transmission Organization and Request for Expedited Treatment* (KY. PSC Jan. 25, 2011).

FRR capacity plan that meets the PJM defined customer capacity obligation. This FRR plan identifies unit-specific generating or demand response (DR) resources that will fulfill the LSE's load obligation and allows for any excess to be sold.

Duke Kentucky explains that the Company's PJM capacity obligations as an FRR Entity reflect the forecasted load of Duke Kentucky's customers and the reserve requirement, both of which are determined by PJM. In the determination of this capacity requirement, Duke Kentucky must satisfy a PJM prescribed reserve margin that differs from the reserve margin used for filing an IRP at the Commission. Under the PJM methodology, the previous years forced outage rate reduces the installed generating capacity, thus lowering the reserve margin in PJM as compared to the reserve margins used for IRP purposes. Duke Kentucky states that it relies upon the availability of its DSM programs to manage capacity and energy requirements by reducing or temporally shifting customer load to meet its FRR obligation.[20] In particular, two of its DSM load management programs, the PowerShare, and Power Manager qualify as DR programs in PJM and are included in Duke Kentucky's FRR plan as capacity resources. Duke Kentucky illustrates that in the absence of its DSM programs, additional capacity purchases would be required to ensure that its FRR plan is not deemed deficient. Such a deficiency would result in significant financial penalties, additional reserve margin penalties on the load forecast, and a possible forced exit from the FRR construct.[21]

[20] Direct Testimony of John A. Verderame on Behalf of Duke Energy Kentucky, Inc. (Verderame Testimony), at 21.

[21] *Id.* at 23.

For the 2018/2019 delivery year, Duke Kentucky has approximately 18 MW of PowerShare capacity directly modeled into the FRR construct and 14 MWs from the Power Manager DSM Program is embedded in the DR component of the FRR plan.[22] Duke Kentucky stresses that the loss of these programs will have a substantial impact on Duke Kentucky's ability to satisfy its load obligations in PJM. Duke Kentucky furthers stresses that as an FRR entity, it is limited to the bilateral capacity market in PJM to meet any capacity shortfalls that may arise if these DSM programs are terminated. Duke Kentucky states that continued investment in its existing generating assets for dedicated use in its FRR plan, of which continued reliance upon PJM recognized DR is a component; is crucial to Duke Kentucky's strategy to meet its capacity obligations; and any deviations could affect costs and potentially result in deficiencies in Duke Kentucky's FRR plan.[23]

Throughout its testimony and briefs, Duke Kentucky notes that its DSM portfolio, (even if one was to ignore the value of capacity) on a whole remains cost-effective based upon the utility total cost (UTC) score.[24] Duke Kentucky maintains that its suite of DSM programs encourages changes in customer consumption patterns and has active customer participation, which allows for a cost-effective tool for maximizing the value of Duke Kentucky's generating fleet. It also allows for the delayed or avoided costs of incremental capacity additions, power purchases, and higher reserve margins. Duke Kentucky notes that unlike other Kentucky utilities, it does not have declining load growth;

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[22] *Id.* at 25.

[23] *Id.* at 29.

[24] Duke Kentucky's Brief at 37.

therefore, the value of avoiding incremental investments in new utility resources is strong for Duke Kentucky.[25]

Duke Kentucky states that its current portfolio is a modest portion of the average residential customer's monthly bill when compared to the benefits both the customers and Duke Kentucky receive.[26] Benefits of the DSM portfolio for which Duke Kentucky cite include: (1) allowing customers to be proactive in reducing their energy consumption which in turn lowers monthly electric bills; (2) a mechanism for customers to afford EE products that in turn lowers overall consumption; (3) reduced consumption during peak hours, which reduces the capacity obligation assessment from PJM, which delays the need to make capacity related investments; (4) reduced demand, which allows for any excess generation capacity to be sold and the proceeds then flowed back to the customer through Rider PSM; (5) leveraging resources of Duke Kentucky with its corporate parent and affiliates, which keeps costs of DSM programs down; and (6) the passing of the California Tests which show a positive benefit/cost ratio.

Duke Kentucky requests the Commission to vacate the provision of the February 14, 2018 Order suspending all of Duke Kentucky's DSM programs, reinstate all of its existing DSM programs, and approve all of its proposed DSM revisions. In support of this position, Duke Kentucky provided customer complaints that have been filed since the suspension; listed past-Commission orders supporting and approving reasonable and cost-effective DSM programs; and noted that Kentucky Law encourages the deployment of reasonable, cost-effective DSM Programs.

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[25] *Id.* at 34.

[26] *Id.* at 32.

Attorney General

The Attorney General believes that the Commission should consider cost-effective DSM programs, but balance the investments in these programs with the impact on the rates to Duke Kentucky's customers.[27] The Attorney General notes that the largest benefits of Duke Kentucky's DSM programs are to those customers who directly participate. Since that participation often requires some level of capital investment by the customer, the Attorney General asserts that low-income customers and small business are financially unable to participate in many of the DSM programs, but are required to continue paying for them. Those customers unable to participate in DSM programs due to economic reasons are, according to the Attorney General, typically those least able to afford higher utility bills.

The Attorney General continues, stating that Duke Kentucky's DSM charges have increased over the past few years from 2 to 3 percent of an average residential customer's bill between 2010 and 2014, to 9 percent in 2017.[28] This places more of a burden upon those who are least able to afford increased utility bills, and the indirect benefits they receive may not outweigh the higher charges being imposed.[29] Given Duke Kentucky's PJM participation and the corresponding FRR obligation, the Attorney General believes that the record reflects a critical need for continuation of the PowerShare and Power Manager programs since they are recognized by PJM as capacity resources. However, the Attorney General questions Duke Kentucky's asserted need for other DSM programs

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[27] Attorney General's Brief in Response filed July 11, 2018 (Attorney General's Brief) at 2.

[28] *Id.* at 3.

[29] *Id.* at 2.

to reduce future supply-side investments when it has recently added 10 MW of solar generation and 2 MW of battery storage. The Attorney General also criticizes Duke Kentucky for not demonstrating a greater concern for rising DSM charges; for not properly balancing DSM costs and benefits, especially to those that can least afford increased utility bills; and for not reflecting the benefits of lower electricity consumption and avoiding additional supply-side investments to be achieved through the deployment of smart meters.

The final point raised by the Attorney General is a concern regarding the eligibility requirements for customer involvement in Duke Kentucky's Low-Income Services Program. For example, for low-income customers to participate, the customer must be in arrears and participate in the LIHEAP program before they are even offered the opportunity to participate in the Low-Income Weatherization Program. The Attorney General suggests that the Commission direct Duke Kentucky to reduce the barriers of participation by low-income customers and increase the benefits levels and offerings.[30]

DUKE KENTUCKY REPLY

In response to the Attorney General's Brief, Duke Kentucky asserts that the Attorney General concedes that Duke Kentucky's DSM portfolio directly benefits customers who chose to participate, is critical to Duke Kentucky's obligations as an FRR entity in PJM, and indirectly benefits all customers from the avoidance of incremental capacity additions.[31] Duke Kentucky believes that the negative observations of the Attorney General do not address whether Duke Kentucky should continue its full suite of

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[30] *Id.* at 6.

[31] Duke Energy Kentucky, Inc.'s Reply Brief filed July 18, 2018 at 2.

DSM programs but instead asks how a greater value may be gained.[32] In addition, Duke Kentucky avers that the increased cost of the DSM programs is due to the result of more offerings and more customer volume and that given the positive cost-effect scores, every dollar spent on DSM is more than repaid by avoiding the cost of capacity additions.[33]

Duke Kentucky notes that the Attorney General agrees that the termination of the Power Manager and PowerShare Programs could negatively affect Duke Kentucky's obligations as an FRR entity in PJM. However, Duke Kentucky believes that the Attorney General's suggestion that other DSM programs should be discontinued is unacceptable as the value of the other DSM programs are recognized in Duke Kentucky's lower-forecasted load in PJM and, correspondingly, its lower FRR obligations.[34] Duke Kentucky also states that the solar generation and battery storage facilities recently added to its system are relatively small and are not sufficient to eliminate the need to continue with all of its existing DSM programs and that the benefits and costs associated with its installation of smart meters are outside the scope of this DSM proceeding. Finally, in response to the Attorney General's suggestion to reform the Low-Income Services Program, Duke Kentucky states that it is open to suggestions on how the program might be improved and suggests that the procedure prescribed in KRS 278.285 be followed for discussion of changes in the collaborative setting.[35]

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[32] *Id.*

[33] *Id* at 3.

[34] *Id.* at 4.

[35] *Id.* at 6.

DISCUSSION

Duke Kentucky has offered evidence supporting the importance and the need to continue Power Manager and PowerShare, the residential and non-residential DSM programs that are recognized by PJM as capacity resources, and the Commission supports the continuation of these programs. Although the capacity reductions from the other DSM programs are not directly used in the PJM reserve margin calculation, they too provide a similar benefit by reducing customer consumption and enabling Duke Kentucky to meet its forecasted PJM load obligation. The record also shows that reducing Duke Kentucky's load requirements through these DSM programs is a less costly alternative than either purchasing capacity or installing additional capacity.

Duke Kentucky provided California Test Scores in Case No. 2017-00427 for the proposed DSM program suite for the fiscal year ending June 2019. These scores were based upon outdated avoided cost data initially developed in 2011 and then escalated to reflect 2016 levels.[36] Duke Kentucky subsequently updated the avoided cost inputs underlying the projected DSM program for the fiscal year ending June 2019.[37] The Commission has traditionally evaluated DSM effectiveness by focusing on the Total Resource Cost ("TRC") results. A TRC score of less than one indicates that the costs of the program outweigh the benefits. The results indicated that the Total Resource Cost (TRC) scores for the residential programs were greater than one for all the active programs with participants. For the non-residential programs, the TRC scores were greater than one for all but the Small Business Energy Saver Program, the Smart Saver

[36] Duke Kentucky's Response to Staff's Second Request for Information, Items 1 and 2.

[37] Duff Testimony, Attachment JFD-1.

Custom Program, and the Smart Saver Prescriptive Lighting Program. In addition, the scores for the Smart Saver Prescriptive Motors/Pumps/VFD, Process Equipment, and IT programs are null.

Given the California Test scores and participation rates, the Commission finds that in addition to continuing the Power Manager and PowerShare programs, all of Duke Kentucky's other DSM programs should be continued except as discussed below.

The Energy Efficiency Education Program for Schools: The Commission finds that the EE Education Program for Schools should be terminated. Although it passes all of the California Tests, its score on the Total Resource Test (TRC) is the lowest of all of the residential DSM programs, other than the Power Manager, which is counted as a capacity response by PJM. The Commission finds merit in the concerns raised by the Attorney General regarding the affordability of the residential DSM charge and agrees that there needs to be a more equitable balance of DSM costs and benefits. Although Duke Kentucky's residential DSM rate cited by the Attorney General was abnormally high in 2017 due the addition of a prior year's under collection, the proposed DSM rate will be approximately \$3.73 per month for the average residential electric consumer and approximately (\$2.06) per month for the average residential gas consumer.[38] This level is still significant for many of Duke Kentucky's electric customers, and DSM budgets need to be reduced to make rates reasonable. Thus, the total proposed budget of \$259,196 for the EE Education Program for Schools for the fiscal year ending June 2019 will be removed from the DSM Rider calculation.[39]

[38] Duke Kentucky Brief at 46.

[39] Case No. 2017-00427, Appendix B, page 2 of 7.

The Residential My Home Energy Report (MyHER) Program: The Commission finds that the MyHER Program should be significantly modified. The Energy Report is sent to every customer every month, although it may not be sent in shoulder months, advising as to usage compared to neighbor's usage and advising of available EE programs. The total budget for this program, including lost sales and shared savings, is $993,478 for the fiscal year ending June 2019.[40] This is currently an opt-out program with only 144 customers of approximately 56,000 opting out.[41] The Commission finds that this program should be an opt-in elective for customers with the usage information sent only twice a year, rather than monthly, to those who opt-in. This will significantly reduce the budget, but to what extent is unknown at this time, therefore, the entire budget will be eliminated. Duke Kentucky can seek recovery of expenditures associated with the opt-in MyHER in its next annual cost recovery filing. In addition, Duke Kentucky can estimate program costs in its next annual cost recovery filing for the fiscal year ending June 2020.

The Residential Smart Saver Energy Efficiency Products: The Commission finds that this program should be modified in two respects. First, the previous approval allowing LED light bulbs to be marketed at discounts at big box stores should be terminated. Duke Kentucky has not yet started providing discounts using retail stores, and the current distribution channels (telephone, Duke website, and online services account) have been highly successful and allowed the program to exceed its budget. Second, allowing customers who have received the limit of 15 free LED bulbs to also receive an additional 12 free bulbs, if the initial 15 bulbs were received over five years

[40] *Id.*

[41] Duke Kentucky's Brief at 29.

ago, is to be eliminated. Based on the expected long life of LED bulbs, and the concerns about the affordability of DSM charges, providing 12 additional bulbs after five years is unreasonable.

Non-Residential Smart Saver Prescriptive Program: The Commission finds Duke Kentucky's proposed amendment to implement a reservation system with a pre-application for payment of prescriptive rebates to be reasonable as it will assist in keeping the expenditures within budget. The Commission also finds Duke Kentucky's proposed amendments to the current program tariff to remove some measure offerings and adjust the incentives of other offerings to be reasonable. With these program revisions, the Commission finds that the program budget should continue unchanged. The Commission notes the marginal TRC score of 0.99 for the Prescriptive Lighting program, and the null scores for the Motors/Pumps/VFD, Process Equipment, and IT Prescriptive Programs. The Commission will allow for the continuation of these prescriptive choices but will reevaluate the cost-effectiveness of these programs in Duke Kentucky's 2019 DSM filing.

Non-Residential Smart Saver Custom Program: The Commission believes that Duke Kentucky should implement a reservation system similar to the prescriptive program. Recognizing that a pre-application is already in use for the Custom Program, a reservation system will allow Duke Kentucky to monitor expenses and stay within the approved budget and allow for better communication to the customer about fund availability prior to the customer's expenditure of funds on EE measures. The Commission also finds that the request to increase the budget for the Custom Program to $2,138,189 is reasonable since the proposed budget increase includes funds that have already been approved but not yet distributed and since the kWh impacts of the proposed EE measures have increased.

The Commission recognizes the TRC score associated with the Custom Program to be less than one.[42] In response to Staff's First Data Request in Case No. 2017-00324, Duke Kentucky explained that the low TRC score was reflective of the same participant cost assumptions that were used in the original filing of the 2017-2018 fiscal year cost estimates.[43] Duke Kentucky further stated that it believed that the TRC results would be above one once the participant costs were updated in the November 2017 DSM filing, which was made in Case No. 2017-00427. In that November filing, the TRC score did increase to 2.65.[44] However, in subsequent filings related to the rehearing, the TRC score fell to 0.66. Due to the inconsistency of this score, the Commission will evaluate whether to continue the Custom Program in Duke Kentucky's 2019 DSM filing.

Small Business Energy Saver: The Commission notes the marginal TRC score of 0.99 for this program. Due to its marginal score, the Commission will allow for the continuation of this program but will reevaluate the cost-effectiveness of these programs in Duke Kentucky's 2019 DSM filing.

Low-Income Programs: The Commission agrees with the Attorney General that the low-income programs need be modified to remove the criteria that a customer must be both in arrears and participate in the LIHEAP program to be eligible to participate in the Low-Income Weatherization program. This will increase the participation rate for low-

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[42] Duff's Testimony, Attachment TJD-1 and Duke Kentucky's Brief at 36.

[43] Case No. 2017-00324, Duke Kentucky's Response to Staff's First Request for Information, Item 3.

[44] Case No. 2017-00427 Application, Appendix A.

income customers. Duke Kentucky should work with the DSM Collaborative as identified in Case No. 2017-00427 and file with the Commission for approval of the modified Low-Income DSM Programs as part of the November 2018 DSM filing.

COSTS AND COST ALLOCATION

The Commission approves all other tariff revisions except for the proposed rates for the Electric and Gas DSMR Riders. Based upon the modified budget, the true-up as filed in Case No. 2017-00427, Duke Kentucky's DSM revenue requirement is $14.685 million, which includes the projected July 1, 2018–June 30, 2019 program costs,[45] lost revenues, and financial incentives. This level of expenditure, along with under- and over-recoveries from the prior period, results in a total DSM revenue requirement of $14.427 million, of which $16.714 million is allocated to electric operations and $(2.287) million is allocated to gas operations. The $16.714 million net amount allocated to electric operations consists of a $5.859 million under-recovery from the prior period and $10.855 million of expected DSM program costs. In addition, the electric operations receive a residential customer charge of $0.10 per meter, totaling $150,012 for Home Energy Assistance ("HEA"). The $(2.287) million net amount allocated to gas operations consists of a $(2.752) million over-recovery from the prior period and $0.465 million of expected DSM program costs. Additionally, the gas operations receive a residential customer charge of $0.10 per meter, totaling $108,386 for HEA.

As noted earlier, since the proposed DSM tariff from Case No. 2017-00427 was a rate decrease for the residential class, the suspension period of that tariff was shortened and the lowered rates were allowed to become effective on February 14, 2018, subject to

[45] See Appendix A of this Order 2018–2019 DSM Budget Expenditures.

prospective change. Based upon these rates, the estimated annual DSM cost for the average residential electric customer decreased approximately $50.00 to $44.81.[46] The decrease resulting from modifications of the DSM programs in this Order will further decrease the annual costs to $35.26 for the average residential electric customer. For the average residential gas customer, the current rates increased the average refund from $(8.21) annually to $(24.67) annually, and the rates from this Order will increase the average refund to $(25.33).

CONCLUSIONS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Duke Kentucky's EE Education Program for Schools should be terminated.

2. Duke Kentucky's MyHER Program should be amended to require that eligibility be based on a customer's election to opt-in, and the usage information sent only twice a year rather than monthly.

3. Duke Kentucky's Residential Smart Saver EE Program should be amended by eliminating the use of big box stores as distribution channels and eliminating the provision for LED bulbs to be provided to customers who have already received LED bulbs over five years ago.

4. Duke Kentucky's Non-Residential Smart Saver Prescriptive Program should be amended by implementing the proposed reservation system with a pre-application for payment of prescriptive rebates and by accepting the proposed revisions to the eligible efficiency measures and the incentives.

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[46] Case No. 2017-00427 Application, paragraph 147.

5. Duke Kentucky's Non-Residential Smart Saver Custom Program should be amended by implementing a reservation system to allow the continuous monitoring of expense, adherence to the program's approved budget, and communications with customers as to the availability of funds prior to DSM expenditures by the customers.

6. Duke Kentucky's request to increase the budget for the Non-Residential Smart Saver Custom Program to $2,138,189 should be approved.

7. The cost-effectiveness of Duke Kentucky's Non-Residential Smart Saver Prescriptive Program, Non-Residential Smart Saver Custom Program, and Small Business Energy Saver Program will be reviewed in Duke Kentucky's DSM filing in 2019 and their continuation will be determined in that case.

8. The DSM rates for electric and gas service as set forth in Appendix B, attached hereto, should be approved for service rendered on and after the date of this order.

9. Duke Kentucky's proposed DSM rates for electric and gas service should be denied.

10. Duke Kentucky's proposed tariff revisions should be approved except as otherwise discussed in this Order.

IT IS THEREFORE ORDERED that:

1. The DSM rates proposed by Duke Kentucky are denied.

2. The DSM rates in Appendix B to this Order are approved for service rendered by Duke Kentucky on and after the date of this Order.

3. Duke Kentucky shall amend its DSM programs and tariffs as set forth in the findings above.

4. Duke Kentucky's proposed DSM program revisions and tariff revisions as modified by the findings above are approved.

5. The cost-effectiveness of Duke Kentucky's Non-Residential Smart Saver Prescriptive Program, Non-Residential Smart Saver Custom Program, and Small Business Energy Saver Program shall be reviewed in Duke Kentucky's DSM filing in 2019.

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

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

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By the Commission

ENTERED

SEP 13 2018

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00427 DATED SEP 13 2018

Kentucky DSM Rider

2018-2019 Projected Program Costs, Lost Revenues, and Shared Savings

Residential Program Summary (A)

	Costs	Lost Revenues	Shared Savings	Total	Allocation of Costs (B) Electric	Gas	Electric Costs	Budget (Costs, Lost Revenues, & Shared Savings) Electric	Gas Costs
Appliance Recycling Program	$ -	$ -	$ -	$ -	100.0%	0.0%	$ -	$ -	$ -
Energy Efficiency Education Program for Schools				$ -	76.7%	23.3%	$ -	$ -	$ -
Low Income Neighborhood	$ 343,237	$ 243	$ (15,216)	$ 328,265	100.0%	0.0%	$ 343,237	$ 328,265	$ -
Low Income Services	$ 911,344	$ 1,157	$ (51,878)	$ 860,623	49.0%	51.0%	$ 446,840	$ 396,118	$ 464,505
My Home Energy Report				$ -	100.0%	0.0%	$ -	$ -	$ -
Residential Energy Assessments	$ 300,015	$ 1,532	$ 8,033	$ 309,581	100.0%	0.0%	$ 300,015	$ 309,581	$ -
Residential Smart $aver®	$ 2,323,461	$ 17,149	$ 106,686	$ 2,447,296	100.0%	0.0%	$ 2,323,461	$ 2,447,296	$ -
Power Manager®	$ 760,837	$ -	$ 119,492	$ 880,329	100.0%	0.0%	$ 760,837	$ 880,329	$ -
Total Costs, Net Lost Revenues, Shared Savings	$ 4,638,896	$ 20,081	$ 167,118	$ 4,826,094			$ 4,174,391	$ 4,361,590	$ 464,505
Home Energy Assistance Pilot Program	$ 258,401							$ 150,012	$ 108,389

NonResidential Program Summary (A)

	Costs	Lost Revenues	Shared Savings	Total	Allocation of Costs (B) Electric	Gas	Electric Costs	Budget (Costs, Lost Revenues, & Shared Savings) Electric	Gas
Small Business Energy Saver	$ 909,657	$ 3,776	$ 117,551	$ 1,030,984	100.0%	0.0%	$ 909,657	$ 1,030,984	NA
Smart $aver® Custom	$ 1,527,598	$ 207,789	$ 402,802	$ 2,138,189	100.0%	0.0%	$ 1,527,598	$ 2,138,189	NA
Smart $aver® Non-Residential Performance Incentive Program	$ 205,022	$ 2,543	$ 47,181	$ 254,746	100.0%	0.0%	$ 205,022	$ 254,746	NA
Smart $aver® Prescriptive - Energy Star Food Service Products	$ 40,698	$ 241	$ 8,192	$ 49,130	100.0%	0.0%	$ 40,698	$ 49,130	NA
Smart $aver® Prescriptive - HVAC	$ 130,263	$ 513	$ 25,382	$ 156,158	100.0%	0.0%	$ 130,263	$ 156,158	NA
Smart $aver® Prescriptive - IT	$ 7,997	$ 0	$ (800)	$ 7,197	100.0%	0.0%	$ 7,997	$ 7,197	NA
Smart $aver® Prescriptive - Lighting	$ 1,349,145	$ 7,708	$ 290,570	$ 1,647,424	100.0%	0.0%	$ 1,349,145	$ 1,647,424	NA
Smart $aver® Prescriptive - Motors/Pumps/VFD	$ 13,754	$ 0	$ (1,287)	$ 12,467	100.0%	0.0%	$ 13,754	$ 12,467	NA
Smart $aver® Prescriptive - Process Equipment	$ 7,116	$ 0	$ (712)	$ 6,405	100.0%	0.0%	$ 7,116	$ 6,405	NA
Power Manager® for Business	$ 180,181	$ 244	$ (7,458)	$ 172,967	100.0%	0.0%	$ 180,181	$ 172,967	NA
PowerShare®	$ 923,717	$ -	$ 93,854	$ 1,017,571	100.0%	0.0%	$ 923,717	$ 1,017,571	NA
Total Costs, Net Lost Revenues, Shared Savings	$ 5,295,148	$ 222,815	$ 975,276	$ 6,493,239			$ 5,295,148	$ 6,493,239	NA
Total Program	$ 9,934,043	$ 242,895	$ 1,142,394	$ 11,319,333					

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00427 DATED SEP 13 2018

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

Rate Schedule Riders	DSM Cost Recovery Rider (DSMR)
Electric Rider DSM	
Residential Rate RS	\$0.003035 per kWh
Distribution Level Rates Part A DS, DP, DT, GS-FL, EH & SP	\$0.004629 per kWh
Transmission Level Rates & Distribution Level Rates Part B TT	\$0.000463 per kWh
Distribution Level Rates Total DS, DP, DT, GS-FL, EH & SP	\$0.005091 per kWh
Gas Rider DSM	
Residential Rate RS	\$(0.040856) per Ccf

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