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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:)
)
 AN INVESTIGATION OF THE)
 ENERGY AND REGULATORY ISSUES) CASE NO. 2007-00477
 IN SECTION 50 OF KENTUCKY'S 2007)
 ENERGY ACT)

SUPPLEMENTAL TESTIMONY OF

THEODORE E. SCHULTZ

ON BEHALF OF DUKE ENERGY KENTUCKY, INC.

April 1, 2008

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1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS,**

3 A. My name is Theodore E. Schultz, and my business address is 526 South Church Street,
4 Charlotte, North Carolina.

5 **Q. PLEASE STATE YOUR JOB POSITION AND DUTIES.**

6 A. I am Vice President – Energy Efficiency for Duke Energy Corporation (“Duke Energy”)
7 the ultimate parent company of Duke Energy Kentucky, Inc. (“DE-Kentucky” or the
8 “Company”). I am responsible for leading energy efficiency initiatives across all retail
9 markets served by Duke Energy, including DE-Kentucky’s service territory. I am also
10 responsible for Duke Energy’s customer strategy and the development and
11 implementation of new products and services for the retail market.

12 **Q. ARE YOU THE SAME THEODORE SCHULTZ WHO PREVIOUSLY FILED**
13 **TESTIMONY IN THIS PROCEEDING?**

14 A. Yes.

15 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

16 A. The purpose of my supplemental testimony is to discuss DE-Kentucky’s position
17 regarding the recommendations contained in the “Review of the Incentives for Energy
18 Independence Act of 2007 Section 50,” (the “Report”) prepared by Overland Consulting
19 (“Overland”). DE-Kentucky’s witness Diane L. Jenner will address the Company’s
20 position regarding recommendations made in pre-filed testimony and in the Report
21 relating to Integrated Resource Planning.

1 **II. RECOMMENDATIONS SUPPORTED BY DE-KENTUCKY**

2 **Q. PLEASE BRIEFLY EXPLAIN THE RECOMMENDATIONS THAT DE-**
3 **KENTUCKY SUPPORTS.**

4 **A.** DE-Kentucky agrees with many of the recommendations contained in the Report. In fact,
5 many of the recommendations are consistent with the positions DE-Kentucky advocated
6 through my Direct Testimony as well as through witnesses Paul G. Smith and Lonnie
7 Bellar. Therefore, for the sake of brevity, I will only address a few key items in this
8 Supplemental Testimony.

9 DE-Kentucky agrees with the first recommendation contained on page 42 of the
10 Report, that the Commission should continue to obtain input from all stakeholders
11 including utilities and non-utilities, as it develops its policies, practices and programs
12 adopted from the Report. An open process fosters the development of workable
13 programs and procedures that will be beneficial to all parties involved. DE-Kentucky
14 would support Commission Staff sponsored workshops as a means of furthering this
15 process.

16 DE-Kentucky also supports the second and third recommendations contained on
17 page 53 of the report regarding the development of set standards for evaluation of DSM
18 programs and measurement and verification guidelines respectively, providing of course
19 those guidelines do not limit the utility's ability to consider all reasonable alternatives.
20 DE-Kentucky believes that clear evaluation criteria would not only assist the
21 Commission in approving possible DSM programs, but would also benefit utilities as
22 they look to design and implement new programs. However, these standards and
23 guidelines should not be so strict as to require consideration or adoption of a particular

1 program or of one option before another.

2 In addition, DE-Kentucky agrees with Overland's recommendation on page 58 of
3 the Report that "[a]ssuming that proper utility incentives and recovery mechanisms are in
4 place, utilities should consider providing or expanding rebates or financing programs to
5 support customer investment in energy efficiency and DSM programs; especially those
6 that are likely to reduce peak demand. A set of pre-approved technology types may be
7 promoted to customers through education and incentives showing the expected payback
8 characteristics for each technology." As discussed in the Report on pages 56 and 57,
9 Duke Energy already has such plans in development in many of its jurisdictions. As
10 discussed throughout my Direct Testimony, proper incentives and recovery mechanisms
11 are key drivers to DE-Kentucky's ability to offer any DSM or energy efficiency program.
12 Utilities should be encouraged through incentives to be proactive in implementing energy
13 efficiency programs into standard service offers.

14 Also, DE-Kentucky supports the recommendation on page 70 of the report
15 regarding a "fast track" for applications for small generation. DE-Kentucky would
16 expand this recommendation or at least suggest a similar fast track process for creation of
17 new or modifications of existing energy efficiency programs.

18 **III. RECOMMENDATIONS NOT SUPPORTED BY DE-KENTUCKY**

19 **Q. PLEASE EXPLAIN THE RECOMMENDATIONS THAT DE-KENTUCKY DOES**
20 **NOT SUPPORT.**

21 **A.** DE-Kentucky does not agree with Overland's fourth recommendation, that the "KPSC
22 should consider the need to revise the DSM statute to expressly authorize the KPSC to
23 act on its own initiative or direction to investigate and direct utilities to implement

1 particular DSM programs, the costs of which would be recovered by the surcharge.”¹
2 While the Commission’s input in developing DSM programs is certainly welcome, DE-
3 Kentucky believes the focus of program development should be on customers and does
4 not believe the Commission should be in a position to direct jurisdictional utilities to
5 implement particular DSM programs.

6 DE-Kentucky believes that the utilities themselves are in the best position to
7 determine which DSM programs would best suit its particular load profile and customer
8 needs. No two utilities in this state are identical and there is not likely a “one size fits all”
9 approach to DSM programs throughout the state. What may be seen as a successful
10 program in one service territory may not be in another. A mandated DSM program may
11 actually be harmful to a particular utility and its customers if the specific program is
12 either uneconomic or does not otherwise make sense in a particular service territory.
13 While DE-Kentucky does not necessarily object to the remainder of Overland’s
14 recommendation regarding the Commission revising its authority to investigate DSM
15 programs or an approval of a cost recovery surcharge, the day to day operation of the
16 utilities, including the specific DSM programs offered, should be left to the utility.

17 **Q. DOES DE-KENTUCKY AGREE WITH OVERLAND’S RECOMMENDATION**
18 **ON PAGE 57 OF THE REPORT REGARDING ALLOCATION OF PROGRAM**
19 **SAVINGS TO ALL JURISDICTIONAL CUSTOMERS?**

20 **A.** DE-Kentucky does not oppose this recommendation with one caveat. It is difficult to
21 reconcile allocating reductions in system costs arising from successful DSM programs to
22 all jurisdictional rate payers with the ability of the larger industrial consumers to “opt-

¹ Overland Report at 54.

1 out” of paying for DSM programs. As the Report recognizes, almost all large industrial
2 electricity users (i.e. transmission served customers) are excluded from utility-
3 implemented DSM programs.² To the extent any DSM system cost savings are allocated,
4 those customers who have opted out of paying for such DSM programs should not be
5 able to benefit from the reductions. Only those customers who have paid for the
6 programs should in turn share in the savings. To do otherwise creates a subsidy to the
7 detriment of the smaller customer classes including residential consumers.

8 **Q. DOES DE-KENTUCKY AGREE WITH OVERLAND’S RECOMMENDATION**
9 **ON PAGE 57 OF THE REPORT REGARDING THE COMMITMENT OF**
10 **ADDITIONAL UTILITY RESOURCES TO CONSUMER EDUCATION?**

11 A. DE-Kentucky agrees that raising consumer awareness is important, but raising awareness
12 does not necessarily translate into consumer action and real results that can be treated like
13 supply-side resources. A fundamental change to the energy efficiency business model
14 that ties real results to utility incentives will drive utilities to go beyond consumer
15 awareness to develop offers that customers value enough to take action.

16 **Q. DOES DE-KENTUCKY AGREE WITH THE RECOMMENDATION**
17 **CONTAINED ON PAGE 96 OF THE REPORT REGARDING THE FILING OF**
18 **AVOIDED COST DATA?**

19 A. DE-Kentucky questions the need for filing this information and the purpose in which it
20 would be used. As discussed on page 95 of the Report, all of the utilities consider
21 avoided capacity costs in some manner as part of their respective DSM program analysis.

22 **Q. DOES DE-KENTUCKY AGREE WITH THE RECOMMENDATION**

² Report at 54.

1 **CONTAINED ON PAGE 106 OF THE REPORT REGARDING THE**
2 **MODIFICATION OF THE CURRENT DSM SURCHARGE MECHANISM?**

3 A. In part. DE-Kentucky believes that even more should be done to encourage utility
4 investment in DSM programs. DE-Kentucky agrees with Overland that the current
5 mechanism does not induce utilities to fundamentally change their business model to
6 consider investment in energy efficiency/DSM programs equal to supply side resources.
7 In its recommendation, Overland states that “the current DSM Surcharge mechanism
8 should be modified. Utility expenditures (capital, and operating costs related to the period
9 of the program) should be capitalized, with amortization based on the estimated period of
10 program benefits. Utilities should be allowed a minimum return of 100 basis points
11 higher than the most recent authorized rate of return in the utility’s last rate proceedings.
12 Utilities should be allowed to receive additional incentives based on the actual benefits
13 achieved relative to appropriate targets from energy efficiency and DSM programs.
14 Assuming that program targets are met, these incentives should provide a reasonable
15 opportunity to earn a graduated return of up to 300 basis points over the minimum
16 premium, based on results.”

17 DE-Kentucky agrees that utility expenditures should be capitalized with
18 amortization based upon the duration of the program. However, the recommendation as
19 drafted will not likely encourage new behavior. As I stated in my Direct Testimony, DE-
20 Kentucky believes that a more appropriate incentive involves allowing a utility to recover
21 a percentage of the avoided costs achieved by energy efficiency and DSM programs.

22 Similarly, DE-Kentucky agrees with the recommendation contained on page 108
23 regarding a new surcharge to include and accelerate energy efficiency expenditures in

1 utility generation facilities. However, given the expense of plant upgrades, DE-Kentucky
2 believes the recommended incentive of 50 basis points higher than the most recent
3 authorized return in the utility's rate proceedings, is still insufficient to seriously
4 encourage utilities to change their model.

5 **IV. CONCLUSION**

6 **Q. DOES THIS CONCLUDE YOUR PREFILED SUPPLEMENTAL TESTIMONY?**

7 **A. Yes.**

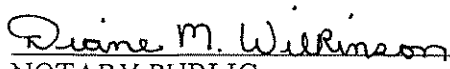
VERIFICATION

STATE OF NORTH CAROLINA)
) SS:
COUNTY OF MECKLENBERG)

The undersigned, Theodore E. Schultz, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.


Theodore E. Schultz, Affiant

Subscribed and sworn to before me by Theodore E. Schultz on this 28th day of March, 2008.


NOTARY PUBLIC

My Commission Expires:

