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David L. Armstrong
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James W. Gardner
Vice Chairman

John W. Clay
Commissioner

February 2, 2009

PARTIES OF RECORD

Re: Case No. 2008-00495

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Rick Bertelson at 502/564-3940, Extension 260.

Sincerely,


Jeff Derouen
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Rick Bertelson, Staff Attorney

DATE: February 2, 2009

RE: Case No. 2008-00495
Duke Energy Kentucky's Save-A-Watt Energy Efficiency Program

On January 26, 2009, an informal conference ("IC") was held to discuss Duke Energy Kentucky's ("Duke") proposed "Save-A-Watt" energy efficiency program and energy efficiency rider. The IC was attended by Duke, the Attorney General ("AG") and Commission Staff. Kroger Company ("Kroger") participated by telephone. Attached is a sign-in sheet with the names of the attendees and telephone participants.

A copy of the presentation given by Duke is attached hereto. Duke stated that energy efficiency is a priority as it believes that electricity demand will rise once the national and state economies rebound from their current downturn. It stated that it has held a number of focus group events with its customers, who have stated their support, generally, for energy efficiency programs, but who also want convenience, minimal up-front costs, short-term payback on any required expenditures, and little or no impact to lifestyle or productivity. Duke stated that it is very challenging to craft effective energy efficiency programs that meet all these desires while still maintaining Duke's profitability.

Duke believes that, under the Save-A Watt program, it can save approximately 1% per year on the kilowatt hours it would have otherwise produced without the energy efficiency programs. Duke described a number of features of its proposed energy efficiency and demand response programs, including coupons for compact fluorescent light bulbs, home energy inspections, web-based consumer energy information, energy education programs in schools, conservation programs, and programs to deploy smart grid technologies and "smart" (price-responsive) appliances, among others.

Duke stated that the energy savings would also result in environmental benefits due to lower energy demand and lower generation output. Commission Staff asked whether such environmental benefits would actually be realized, since Duke can sell all the energy its retail customers don't purchase at wholesale through its regional transmission organization, the Midwest Independent System Operator ("MISO"). Duke stated that, if all states in the MISO region enact similar energy efficiency programs, then overall energy demand will be reduced, along with actual generation output.

Under Duke's proposal, Duke would receive an energy efficiency surcharge if it meets certain specified targets for savings through its energy efficiency and demand response programs. The surcharge would pay Duke a maximum of 75% of avoided costs for its demand response programs and a maximum of 50% of its avoided costs for energy efficiency programs when it is able to present verified results of its savings. Duke stated that its proposal is very similar to Save-A-Watt programs for which its sister companies have sought approval in Indiana, North Carolina, Ohio, and South Carolina.

Kroger stated its opposition to the Duke application. Kroger believes that paying a utility for power it does not produce does not make sense and urges the Commission to continue to use the least-cost approach for approving utility demand-side management ("DSM") applications. Kroger stated its belief that Duke's proposal will not result in any environmental benefits because of Duke's ability to sell its excess power to MISO.

Duke responded that the avoided cost method described in its application is not fundamentally different from the manner in which its DSM revenue requirement is currently determined.

There being no other questions from any party, the IC was adjourned.

Attachments

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2008-00495

APPLICATION OF DUKE ENERGY KENTUCKY, INC. FOR APPROVAL OF
ENERGY EFFICIENCY PLAN, INCLUDING AN ENERGY EFFICIENCY RIDER
AND PORTFOLIO OF ENERGY EFFICIENCY PROGRAMS

SIGN IN

January 26, 2009

PERSON	REPRESENTING
Rick Bertelson	PSC - Legal
Jorge Valladares	PSC Fin. Analysis
Quita Mitchell	PSC legal
Jeff Shaw	PSC - FIN. ANALYSIS
Larry Cook	OAG
Julie Fran	Duke Energy Ky - President
Michael Goldenberg	Duke Energy
Richard Stevie	Duke Energy
Catherine Heigel	Duke Energy
Fed Shurt	Duke Energy
Mark D. Goss	Duke Energy - outside Counsel
Roberto D'Ascenzo	Duke Energy
Mike Kurtz (via telephone)	KIUC #13



Duke Energy's Vision for Energy Efficiency in Kentucky

January 26, 2009

Duke Energy Confidential & Privileged

Why Energy Efficiency & Why Now



- Customer's electric demand is growing requiring new investment
- Rising energy prices
- Environmental issues need to be addressed
- Technological advances

Customer Challenges & Opportunities



In focus groups consistent themes emerged regarding customer attitudes, behaviors and preferences toward energy and energy efficiency improvements.

CHALLENGES

- “Energy works for me, I don’t work for energy”
- Electricity is generally perceived to be abundant
- Managing energy is not a priority
 - The cost of energy is a small portion of the household/business budget
 - Other lifestyle/competitive issues dominate top-of-mind consideration
- Customers believe that they have already adopted simple, responsible behaviors
- Customers are minimally motivated to invest time, effort or money to making energy efficiency improvements

Customer Challenges & Opportunities



In focus groups consistent themes emerged regarding customer attitudes, behaviors and preferences towards energy and energy efficiency improvements.

OPPORTUNITIES

- Customers view energy efficiency (EE) (*i.e.*, reduced bill) as an important aspect of their relationship with Duke Energy
- There is an emerging social consciousness with regard to energy, but lack of funds in down economy take precedence
- Customer prerequisites for adoption:
 - Productivity and/or lifestyle can not be compromised
 - Minimal up-front investment
 - Quick/immediate and material pay-off
 - Hassle-free solution
- Customers will take action when there is clear leadership and when there is a compelling value proposition

Duke Energy's Save A Watt Proposal



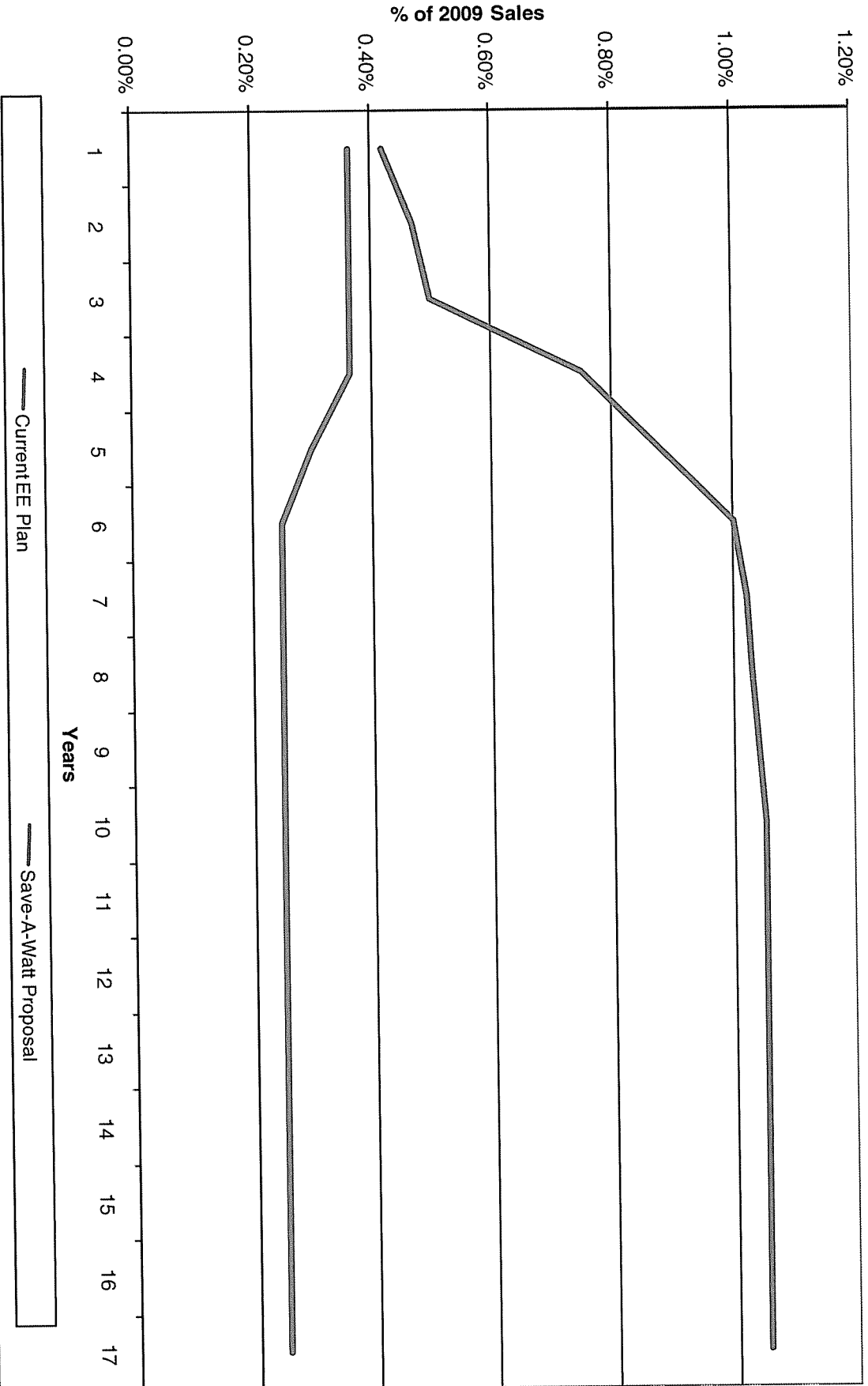
Will benefit our customers, the public and the Company by implementing ALL cost-effective programs that will:

- Produce EE resources to meet a portion of needed capacity and energy with zero emissions
- Lower bills for ALL customers compared to the bills that would result from supply-side only investments
- Reward only the delivery of results (reductions in kW and kWh)
 - Substantially lower bills for customers who participate
 - Give the Company the financial incentive to go after EE
 - Align all stakeholders on providing value to customers with EE
- Use a portfolio approach to programs that provides customers with universal access to EE
- Create new energy efficiency service jobs

Energy Efficiency Resource: Save A Watt Plan



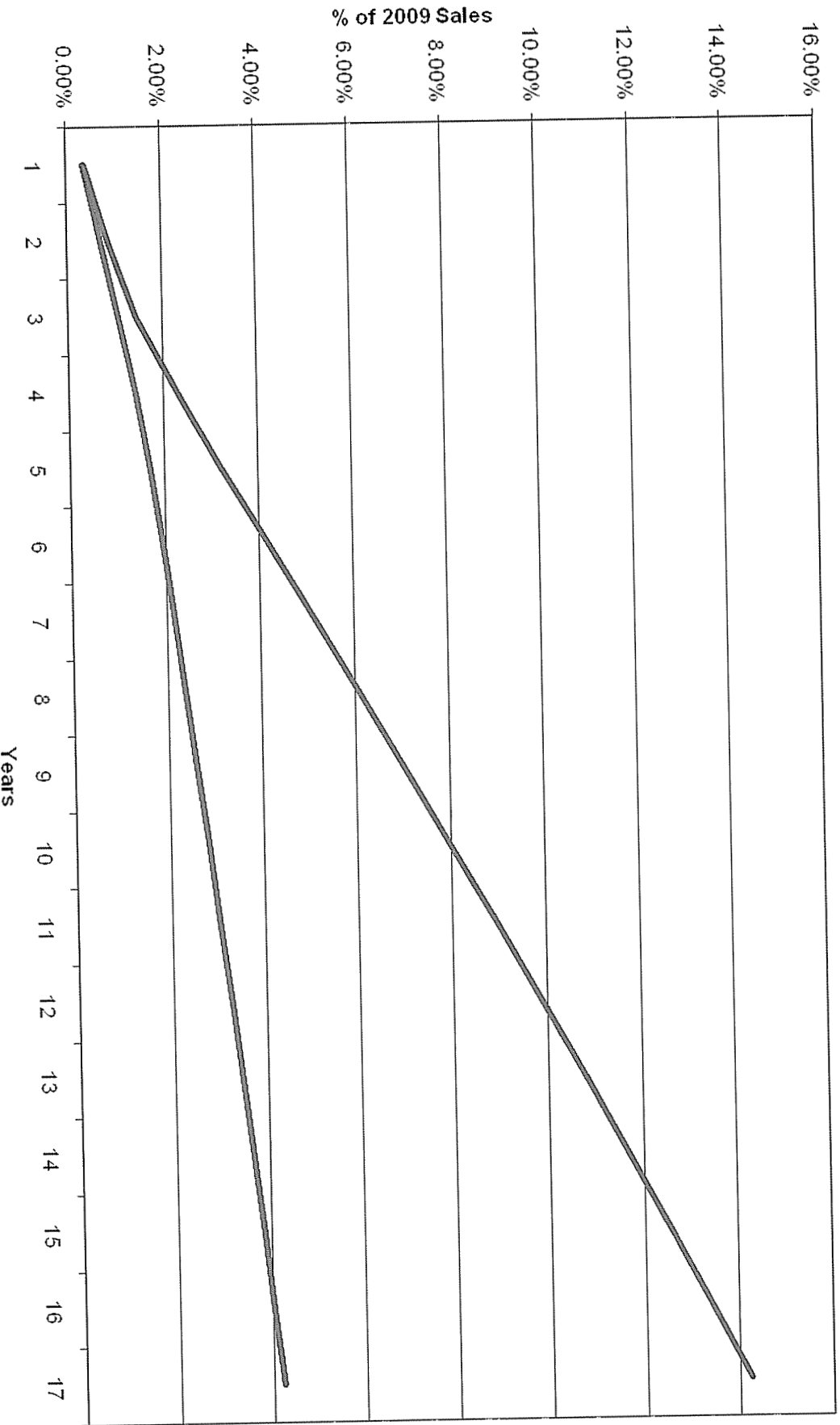
Incremental EE Impacts



Energy Efficiency Resource: Save A Watt Plan



Cumulative EE Impacts



Save A Watt Proposal



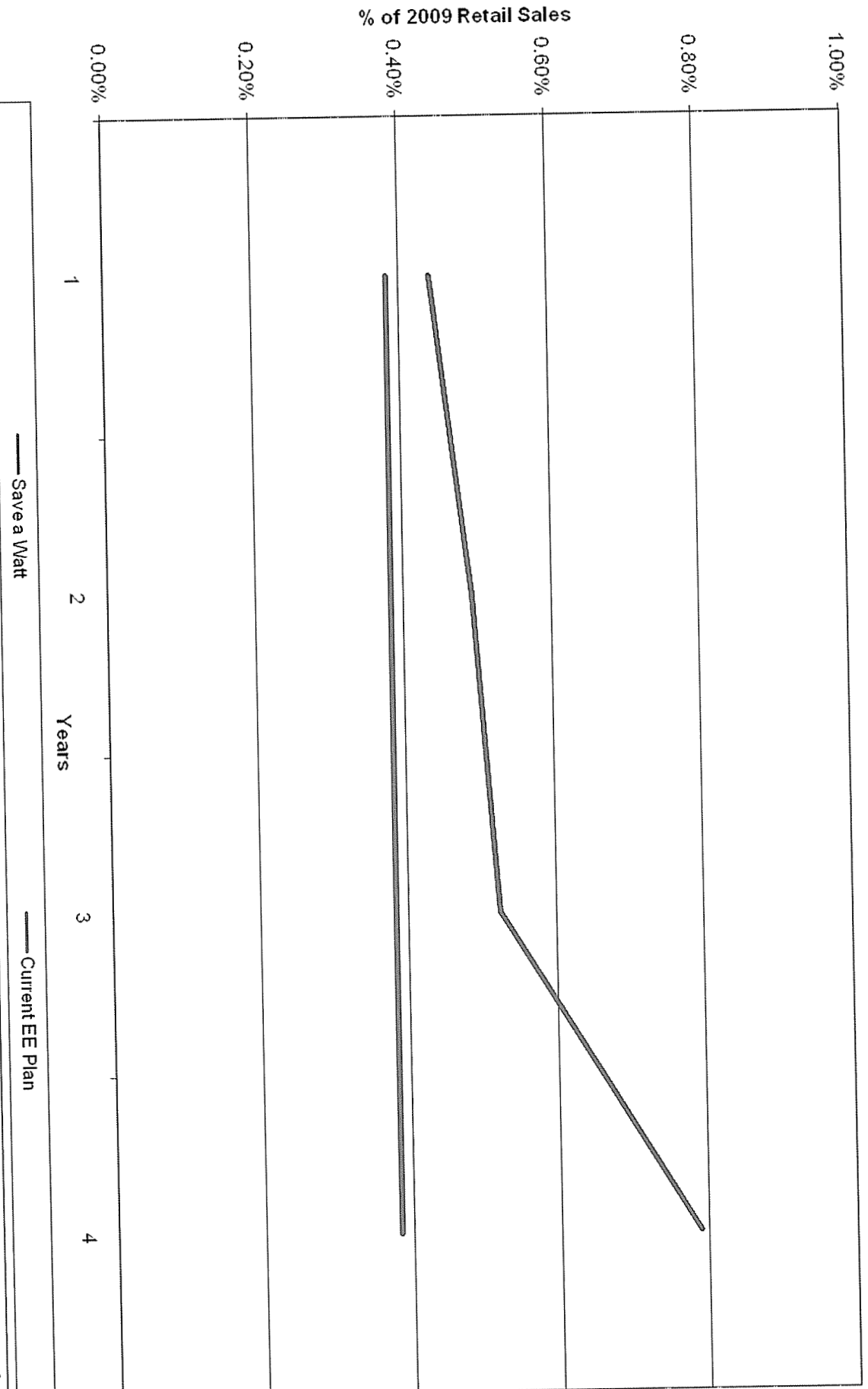
- Compensation based on a percentage of the verified results actually achieved (e. g. 50% EC and 75% DR)
 - From this, the Company must pay all program costs (marketing, administration, incentives, measurement and verification, etc.)
 - If compensation does not cover costs, the Company loses money.
- Cost recovery: 4 years + true up
- Performance Targets and Earnings Cap:

<u>% Target</u>	<u>CAP -- ROI on Program Costs</u>
>90%	15%
80-89%	12%
60-79%	9%
< 60%	5%
- Lost margin recovery: 100% for 3 years
- Opt-out for Industrial Customers per KRS 278.285

Energy Efficiency Resource: Save A Watt Plan



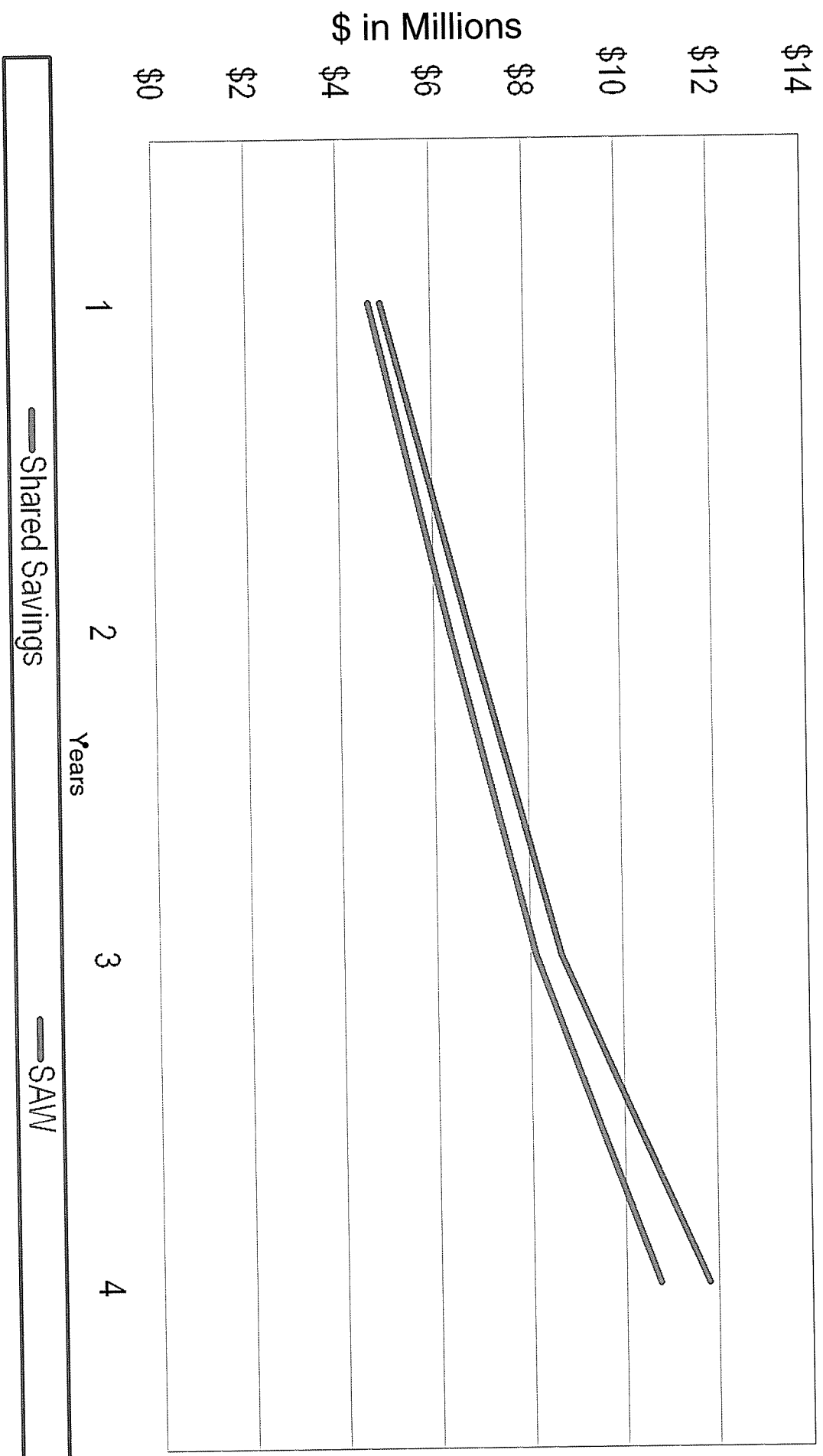
Incremental Energy Impacts



Energy Efficiency Resource: Save A Watt Plan



Comparison of Revenues over 4 years (includes Lost Margins)



Note: Nominal dollars, assumes same portfolio of products

Duke Energy Confidential & Privileged



What Makes Save-a-Watt Different?

- Value-based service business
- Added risk of being paid solely on results
- Must provide value to customers to get paid
- Success leads to greater investments in EE
- Forces a more rigorous result supporting 5th fuel concept

Save-a-Watt Program Portfolio to Deliver Results



- Phase I: Leverage Current Portfolio
 - Aggressive channel strategy to increase results
 - Reinvestment to maintain run rate
- Phase II: Comprehensive Solutions
 - Energy Star Home Performance
 - Customer Smart \$aver Verticals
 - New Construction
- Phase III: New Technology
 - Home & Away
 - Prices to Devices
 - Integrated Energy Management Systems

Jenna

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Kentucky Energy Efficiency Programs – Today



- Residential Programs
 - Energy Efficiency Web Site
 - Energy Star Products
 - Home Energy House Call
 - Personal Energy Report (PER)
 - Power Manager

- Non-Residential Programs
 - Energy Education in Schools
 - Smart \$aver Incentives for Businesses & Schools
 - PowerShare

- Income-Qualified Programs
 - Conservation & Energy Education
 - Payment Plus

Next Steps



Questions?