

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY,)	CASE NO.
INC. FOR THE ANNUAL COST RECOVERY FILING)	2011-00448
FOR DEMAND-SIDE MANAGEMENT)	

O R D E R

On November 15, 2011, Duke Energy Kentucky, Inc. (“Duke Kentucky”) submitted its annual status report and cost recovery filing (“Application”), pursuant to KRS 278.285, and requested approval of its proposed Demand-Side Management (“DSM”) gas and electric DSM Rider and programs. Duke Kentucky requested the proposed new rates become effective 30 days from the date of the Application. According to the filing, all members present of the Duke Kentucky Residential Collaborative¹ and Commercial and Industrial Collaborative² are in agreement with the proposed Application, with the exception of the Attorney General of the Commonwealth

¹ The Residential Collaborative members are: Attorney General (Jennifer Hans), People Working Cooperatively (Jock Pitts), Northern Kentucky Community Action Commission (Jennifer Belisle), Boone County Fiscal Court (Laura Pleiman), Brighton Center (Lauren Copeland), Northern Kentucky Legal Aid (Carl Melcher), Kentucky Need Project (Karen Reagor), Campbell County Fiscal Court (Pat Dressman), Department of Energy Development and Independence (Lee Colten and Paul Brooks), Greater Cincinnati Energy Alliance (Chris Jones), and Duke Energy Kentucky (Tim Duff and Trisha Haemmerle).

² The Commercial & Industrial Collaborative members are: Attorney General (Jennifer Hans), People Working Cooperatively (Jock Pitts), Kentucky Need Project (Karen Reagor), Northern Kentucky University Small Business Development (Carol Cornell), Northern Kentucky Chamber of Commerce (Daniele Longo), Department of Energy Development and Independence (Paul Brooks and Lee Colten), and Duke Energy Kentucky (Tim Duff and Trisha Haemmerle).

of Kentucky, by and through his Office of Rate Intervention (“AG”), who was to indicate his opinion at a later date. The AG sought and was granted intervention in this case on November 28, 2011.

Duke Kentucky’s Application included proposed DSM gas and electric tariffs which omitted the required issuance date, effective date, and signature. The Commission’s Order dated December 16, 2011 informed Duke Kentucky that the proposed DSM gas and electric tariffs could not become effective until the omission of the issue and effective dates and signature is cured. The Order also set forth a procedural schedule which provided for two rounds of discovery and the filing of comments. On December 20, 2011, Duke Kentucky filed with the Commission proposed DSM gas and electric tariffs with appropriate dates and signature, curing the omission. The Commission issued a suspension Order dated December 28, 2011, suspending Duke Kentucky’s proposed DSM gas and electric tariffs for five months from January 19, 2012, up to and including June 18, 2012.

ATTORNEY GENERAL’S COMMENTS

On March 1, 2012, the AG filed comments expressing his concern as to two items. The first item of concern is the separate accounting of employee-related DSM and energy efficiency costs. The AG said:

The Attorney General commends the Company’s commitment in Case No.2006-00172 to track and account for the company’s employee-related DSM expenses within the DSM program only. Without separate accounting, a utility could seek (1) to recover its full costs of Commission-approved programs and revenues lost by implementing those programs and incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs under KRS 278.285(2)(a) and (b), and (2) to recover a return on equity for such expenses under Chapter

KRS 278.190. Such a result would be unfair and completely unjustifiable for the ratepayers to be forced to bear. Accordingly, the Attorney General requests that the Commission include in its Order a requirement that the Company continue to maintain a separate accounting of all its costs related to DSM or energy efficiency and not include those costs, including internal personnel costs relating to such programs, in its base rates. [Footnote omitted.]

In Duke Kentucky's response to Commission Staff's Second Information Request, Item 2, Duke Kentucky stated that the Residential Conservation and Energy Education program's Company Labor Program Administration cost was not part of base rates. In fact, Duke Kentucky stated that there are no DSM or energy efficiency ("EE") related costs in their current base rates.

The second item of concern is that the cost effectiveness test result score for the Residential Comprehensive Energy Education Program was negligible. The AG said:

There is simply little to no verifiable data that may be offered to support assumptions that school-age education efforts will have a demonstrable effect on energy consumption. Rather, it is the much more likely that such a program, even in the context of a public/private partnership, will merely result in increased goodwill to the company. Regarding the most recent data supplied by the Company, the proposal to maintain the same projected program costs despite a lower than anticipated enrollment does not appear to be efficient use of consumer dollars.

Despite these concerns about the Residential Comprehensive Energy Education Program, the AG recommended that the Commission accept the annual status report and approve the Application and the proposed DSM gas and electric tariffs.

Discovery is complete and the matter now stands submitted to the Commission for a decision based upon the record.

DISCUSSION OF EXISTING PROGRAMS

Duke Kentucky proposes to offer the same 12 DSM programs to its residential, commercial, and industrial customers in 2012 as it offered in 2011. The programs are:

1. Residential Conservation and Energy Education. This program specifically focuses on Low Income Home Energy Assistance Program customers that meet the income qualification level, income below 130 percent of the federal poverty level. The program provides direct installation of weatherization and energy-efficiency measures and educates customers about their energy usage and other opportunities to reduce energy consumption and lower their costs.

2. Residential Home Energy House Call. This program is administered by contractor Wisconsin Energy Conservation Corporation, Inc. The program provides a comprehensive walk-through, in-house analysis. The home audit reviews total home energy usage and checks appliances and heating/cooling systems.

3. Residential Comprehensive Energy Education. This program is operated under contract by the National Energy Education Development (“NEED”). Energy education coordinators work with schools, teachers, and students on energy education programs. Home Energy Efficiency Kits are distributed to students.

4. Program Administration, Development & Evaluation. This program is responsible for designing, implementing, and capturing costs related to the administration, evaluation, and support of the overall DSM effort. This program's funds are utilized for the redesign of programs and for the development of new programs or program enhancements.

5. Payment Plus. This is a home energy assistance program. The program has three parts: (1) Energy & Budget Counseling; (2) Weatherization; and (3) Bill Assistance. This program is offered over six winter months per year starting in October.

6. Power Manager. This is a load control program. The purpose of this program is to reduce demand by controlling residential air conditioning usage during peak demand conditions in the summer months.

7. Energy Star Products. This program promotes Energy Star products, particularly Compact Fluorescent Lights ("CFL"). Discount coupons are mailed directly to customers' homes. Customers receive a coupon mailer offering \$3 off the purchase of two General Electric CFL two-packs.

8. Energy Efficiency Website, On-line Energy Assessment. This program offers customers the opportunity to visit their On-line Service accounts at dukeenergy.com and encourages them to take a short Energy Efficiency survey ("EE survey"). Participants receive an immediate, on-line, printable Energy Efficiency report ("EE report") and are sent a package of six free CFLs. The report contains month-to-month usage (kWh/Ccf) and customized energy tips.

9. Personalized Energy Report Program. This program is similar to the Energy Efficiency Website, On-line Energy Assessment, except that it is a mailed version of the on-line offer. An EE report and six CFLs are mailed to customers who send in a completed EE survey.

10. Commercial & Industrial High Efficiency Incentive (Business and School). The Business program provides incentives to small commercial and industrial customers to install high-efficiency equipment in applications involving new

construction, retrofit, and replacement of failed equipment. The School program provides funding to schools for facility assessments, custom and prescriptive measures, rebates, and energy efficiency education from the NEED organization.

11. PowerShare. This is the brand name of Duke Kentucky's voluntary Peak Load Management Program (Rider PLM, Peak Load Management Program, KY.P.S.C. Electric No. 2, Sheet No. 77). This program offers non-residential customers the opportunity to reduce their electric costs by managing their electric usage during peak-load periods.

12. Residential Smart Saver. The objective of this program is to offer additional incentives to qualifying residential customers in support of the Kentucky Housing Corporation's Kentucky Home Performance ("KYHP") conservation program. The KYHP is a state-wide program that targets households at or above 200 percent of poverty in order to initiate energy conservation and to stimulate the residential home improvement market. While Duke Kentucky believes that customers with moderate to higher income levels are more likely to participate, there is no floor or income level requirement to participate in Duke Kentucky's Residential Smart Saver program. Improvement measures include attic insulation and air sealing, duct sealing, and tune-ups for central air conditioning and heat pump equipment. The program also offers incentives for the installation of high-efficiency heat pumps or air conditioners in both existing homes and new construction.

The following table lists all the programs' participation levels, and kWh and kW impacts for the 12 months ending June 2011:

	Incremental Participation	Load Impacts	
		Net of Free Riders *** kWh	kW
<u>Residential Programs</u>			
Home Energy House Call	511	201,399	35.3
Energy Efficient Website	167	59,822	14.4
Energy Star Products *	13,712	615,403	127.9
Low Income Program	234	145,782	40.1
Refrigerator Replacement	76	82,612	19.9
Personalized Energy Report	3,381	1,233,586	298.9
Power Manager **	9,527	0	10,138.2
NEED	155	18,025	1.5
Residential Smart Saver	0	0	0.0
Total Residential	27,763	2,356,629	10,676.2
<u>Non-Residential Programs</u>			
C&I Lighting	19,656	4,487,685	982.5
C&I HVAC	5,738	605,935	235.7
C&I Motors	111	275,954	60.5
C&I Other	32	53,158	9.5
Custom Incentive Schools	0	0	0.0
Power Share	12	0	12,957.2
Total Non-Residential	25,549	5,422,732	14,245.4
Total	53,312	7,779,361	24,921.6

* Energy Star Products is number of bulbs not participants.

** Cumulative number of controlled devices installed.

*** Impacts are without losses.

SAVINGS AND COSTS

Duke Kentucky reported energy savings of 7.8 million kWh attributable to its DSM programs for the 12 months ending June 30, 2011. The programs resulted in demand reductions during this period of 24,922 kW.

Duke Kentucky's DSM revenue requirement, including program costs, lost revenues, and financial incentives is \$6.7 million.³ This level of expenditure, along with

³ Duke Kentucky's Application, Appendix B, page 2 of 6, and Duke Kentucky's Response to Commission Staff's First Information Request, Item 28, page 2 of 6.

under- and over-recovery from the prior period, results in a total DSM revenue requirement of \$1.3 million, of which \$4.6 million is allocated to electric operations and (\$3.3) million is allocated to gas operations.⁴ The \$4.6 million allocated to electric operations includes a (\$1.2) million over-recovery from the prior period, \$5.7 million of expected DSM program costs, and \$144,085 of customer meter charge for Home Energy Assistance (“HEA”). The (\$3.3) million allocated to gas operations includes (\$4.4) million over-recovery from the prior period, \$1.0 million of expected DSM program costs, and \$103,979 of customer meter charge for HEA.

Regarding the AG’s comments on the Residential Comprehensive Energy Education Program, typically, education type programs are at best negligibly cost effective. The Total Resource Cost test result for this program is 1.01 as shown in Appendix A to the Application. A program is deemed to be cost effective when the result of such a cost-effectiveness test is 1.0 or greater, meaning the benefits of the program are equal to or greater than the costs of the program. Unfortunately, the AG’s comments do not explain why he is expressing concern about the cost-effectiveness of the Residential Comprehensive Energy Education Program while at the same time he is recommending that the program be approved. On March 6, 2012, Duke Kentucky filed a new DSM application, Case No. 2012-00085,⁵ proposing some programs be revised and some be renamed. The Residential Comprehensive Energy Education Program is proposed in that case to be renamed the Low Income Services Program. To the extent

⁴ Id. at 5 of 6.

⁵ 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 (filed Mar. 6, 2012).

that the AG has concerns about the cost-effectiveness of this program, he should articulate his concerns and clarify his opinion as to its continuation as the Low Income Services Program in Case No. 2012-00085.

CONCLUSIONS

Having reviewed the record, including the evaluation studies, and the cost-effectiveness test results provided by Duke Kentucky in support of its existing and proposed DSM programs, and being otherwise sufficiently advised, the Commission finds that:

1. Duke Kentucky has continued to keep the Commission properly informed of the progress and status of its DSM programs with this most recent annual filing, which contains updates on individual programs, energy and demand savings, projected expenditures, and reconciliations of prior revenues and costs for all programs.

2. Duke Kentucky's existing DSM programs should continue as previously approved through December 31, 2012.

3. Duke Kentucky's revised DSM surcharge factors, which are based on its expected level of DSM program costs and the true-up of prior period DSM costs and revenues, are reasonable and should be approved.

4. Duke Kentucky should continue the practice of no DSM or EE related costs being included in base rates.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's Application is approved as of the date of this Order.

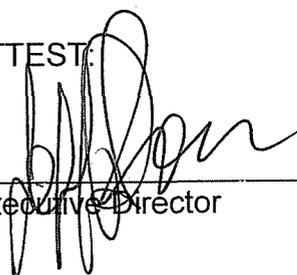
2. Duke Kentucky shall continue the practice of no DSM or EE related costs being included in base rates.

3. Within 10 days of the date of this Order, Duke Kentucky shall file its revised DSM tariffs with the Commission showing the date of issue and that they were issued by authority of this Order.

By the Commission

ENTERED *PH*
APR 13 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00448 DATED APR 13 2012

Duke Energy Kentucky – Electric and Gas Customers

<u>Customer Classification</u>	<u>Proposed DSM Surcharge</u>	<u>Existing DSM Surcharge</u>
Electric Residential	\$0.001295 per kWh	\$0.001514 per kWh
Non-residential Distribution	\$0.001060 per kWh	\$0.001326 per kWh
Non-residential Transmission	\$0.000430 per kWh	\$0.000274 per kWh
Gas Residential	-\$0.053372 per Ccf	\$0.16509 per Ccf

Kristen Cocanougher
Duke Energy Kentucky, Inc.
139 East 4th Street, R. 25 At II
P. O. Box 960
Cincinnati, OH 45201

Honorable Dennis G Howard II
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204