

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC ANNUAL COST RECOVERY	)	CASE NO.
FILING FOR DEMAND SIDE MANAGEMENT	)	2020-00371
BY DUKE ENERGY KENTUCKY, INC	)	

ORDER

On November 16, 2020, Duke Energy Kentucky, Inc. (Duke Kentucky) electronically filed its Annual Status Report, Adjustment of the Demand Side Management (DSM) Cost Recovery Mechanism, and Amended Tariff Sheets for Gas Rider DSMR and Electric Rider DSMR application. According to the application, Duke Kentucky met with the Residential Collaborative<sup>1</sup> and the Commercial and Industrial Collaborative,<sup>2</sup> and with the exception of the Office of the Kentucky Attorney General (Attorney General), the members in attendance agreed with the application.

On December 14, 2020, the Commission entered an Order suspending the effective date of the proposed tariffs for five months, up to and including May 14, 2021. Duke Kentucky responded to two rounds of discovery. There are no intervenors. On March 1, 2021, Duke Kentucky filed a statement requesting that this case be submitted. The case now stands submitted for a decision based on the evidentiary record.

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<sup>1</sup> The Residential Collaborative members in attendance were Larry Cook (Attorney General), Kenya Stump (Office of Energy Policy), Brandon Holmes (Northern Kentucky Community Action Commission), Jock Pitts (People Working Cooperatively), and Trisha Haemmerle (Duke Kentucky).

<sup>2</sup> The Commercial and Industrial Collaborative members in attendance were Larry Cook (Attorney General), Christine Baker (Kenton County School District), Kenya Stump (Office of Energy Policy), and Trisha Haemmerle (Duke Kentucky).

### DUKE KENTUCKY DSM PROGRAM PORTFOLIO<sup>3</sup>

The portfolio of programs offered by Duke Kentucky during the fiscal year ending June 30, 2020, were approved by the Commission's Order in Case No. 2017-00427.<sup>4</sup> Duke Kentucky's DSM portfolio, for which the costs are recoverable through the DSM Cost Recovery Rider mechanism, includes the following programs through June 30, 2020.<sup>5</sup>

1. Residential Smart Saver Energy Efficient Residences Program;
2. Residential Smart Saver Energy Efficient Products Program;
3. Residential Energy Assessments Program;
4. Low Income Service Program;
5. Residential Direct Load Control – Power Manager Program;
6. Smart Saver Prescriptive Program;
7. Smart Saver Custom Program;
8. Peak Load Manager (Rider PML) – PowerShare Program;
9. Low Income Neighborhood Program;
10. My Home Energy Report Program;
11. Small Business Energy Saver Program;
12. Non-Residential Pay for Performance; and
13. Peak Time Rebate Pilot Program.

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<sup>3</sup> Application, paragraph 15.

<sup>4</sup> Case No. 2017-00427 *Electronic Annual Cost Recovery Filing for Demand Side Management by Duke Energy Kentucky, Inc.* (Ky. PSC Sept. 13, 2018).

<sup>5</sup> Application, paragraph 5. This Application serves as the annual true-up of the fiscal year ended June 30, 2020, and therefore covers the portfolio of programs in effect July 1, 2019, through June 30, 2020.

The application contained brief descriptions of each program, a review of the status of each program, and information on any changes made to the programs. Several programs were suspended in late March through July 2020 and again during the November to December 2020 state shutdown due to the COVID-19 pandemic and surrounding safety concerns of customers and program staff. Only one program, the Low Income Neighborhood Program, remained suspended during discovery, but is scheduled to relaunch March 2021.<sup>6</sup> Duke Kentucky conducted a review of the 108 measures included in the DSM portfolio, and 16 did not pass with a Total Resource Cost (TRC) score greater than 1.0.<sup>7</sup> Duke Kentucky followed up with updates to scores stating that it had secured cost reductions in contract services as well as updates to the incremental participant costs to reflect current market information.<sup>8</sup> Of these updates, eight programs were still not cost effective.<sup>9</sup>

### COST-EFFECTIVENESS

Duke Kentucky provided in Appendix A of its application the results of cost-effectiveness tests performed on its individual residential and nonresidential DSM programs. The test results showed that, with the exception of the Low Income Services Program, the programs are projected to be cost-effective, with scores greater than 1 for the TRC Test. The TRC scores were greater than 1 for all of the nonresidential programs. Duke Kentucky also evaluates cost-effectiveness based upon the Utility Cost Test

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<sup>6</sup> Duke Kentucky's Response to Staff's First Request for Information (Staff's First Request) (filed Jan. 11, 2021), Item 1.

<sup>7</sup> Application at paragraph 109.

<sup>8</sup> Duke Kentucky's Response to Staff's First Request, Item 9.

<sup>9</sup> *Id.*

(UCT).<sup>10</sup> The UCT results were also cost-effective for all nonresidential programs and for the residential programs, all but the Low -Income, Energy.<sup>11</sup> Duke Kentucky also included the individual TRC and UCT scores for each individual measure within each DSM program.<sup>12</sup> In the final Order in Case No. 2019-00277, the Commission found that individual modifications that are not cost-effective, as demonstrated by a TRC score of less than one, are unreasonable and should not be approved.<sup>13</sup> Additionally, in Case No. 2016-00289, the Commission noted its concern about the increasing number of utility DSM programs and cautioned that Duke Kentucky should scrutinize the results of each measure's cost-effectiveness test.<sup>14</sup> Hence, the Commission finds that the individual program measures that are not cost-effective, as demonstrated by a TRC score of less than one, are unreasonable and should not be approved.

#### COSTS AND COST ALLOCATION<sup>15</sup>

Duke Kentucky's DSM revenue requirement, including projected July 1, 2019, through June 30, 2020 program costs, lost revenues, and financial incentives is \$7.526 million. This level of expenditure, along with under- and over-recoveries from the prior period, results in a total DSM revenue requirement of \$4.198 million, of which

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<sup>10</sup> See Case No. 2017-00427 *Duke Energy Kentucky, Inc.* (Ky. PSC Sept. 13, 2018), final Order at 10.

<sup>11</sup> Cost-effective scores for Low Income Programs are not typically cost-effective. The other programs which are not cost effective have been discontinued or modified in Case No. 2017-00427.

<sup>12</sup> Application, Appendix F and Duke Kentucky's Response to Staff's First Request (filed Jan. 11, 2021), Item 9.

<sup>13</sup> Case No. 2019-00277 *Electronic Application of Duke Energy Kentucky, Inc. to Amend Its Demand Side Management Programs* (Ky. PSC Apr. 27, 2020) at 14.

<sup>14</sup> Case No. 2016-00289, *Electronic Application of Duke Energy Kentucky, Inc. to Amend Its Demand Side Management Programs* (Ky. PSC Jan. 24, 2017), finding paragraph 6.

<sup>15</sup> Application, Appendix B at 5.

\$1.344 million is allocated to electric operations and \$2.854 million is allocated to gas operations. The \$1.344 million net amount allocated to electric operations consists of a \$5.897 million under-recovery from the prior period and \$7.241 million of expected DSM program costs.

The \$2.854 million net amount allocated to gas operations consists of a \$2.568 million over-recovery from the prior period and \$0.286 million of expected DSM program costs.

### CONCLUSIONS

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

1. Duke Kentucky has adequately kept the Commission informed of the progress and status of its DSM programs by timely filing summary status reports on its programs.

2. In addition to summary status reports currently filed, Duke Kentucky should continue to file with the Commission notices for (1) any DSM program once it reaches 95 percent of its budget during a fiscal year, and (2) any DSM program Duke Kentucky projects will exceed its budget by 25 percent. Any notice filed for a budget overrun should include an explanation regarding the cause of the budget overrun.

3. The DSM rates for electric and gas service as set forth in the Appendix to this Order are reasonable and should be approved.

4. The Commission continues to find that Duke Kentucky should be vigilant in its scrutiny of the results of each existing DSM program measure's cost-effectiveness tests and provide those results in future DSM cases along with detailed support for future

DSM program expansions and additions. Duke Kentucky should also continue to be mindful of the increasing saturation of energy-efficient products and should be watchful for the opportunity to scale back programs offering incentives for behavior that may be dictated by factors other than the incentives. The Commission remains concerned about the increasing number of utility DSM programs and the associated increase in costs to ratepayers, particularly as the costs of the programs are borne by all customers in a rate class and are not limited to the participants in the DSM programs. Therefore, the Commission will continue to apply greater scrutiny in its review of all future DSM filings, with a particular emphasis on reviewing the cost-effectiveness of each program and measure.

5. Duke Kentucky should continue the practice of not including DSM or energy-efficiency-related costs in base rates.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's proposed DSM programs and associated costs are approved effective the first billing cycle of the month following the issuance of this Order.

2. The DSM rates in the Appendix to this Order are approved.

3. Duke Kentucky shall comply with the requirements of the finding paragraphs 2 and 5.

4. In its next filing for Commission approval of its DSM programs, Duke Kentucky shall provide analyses of the impact of DSM charges on its electric and gas customers' bills, and detailed evaluations of the cost-effectiveness of its existing programs and any proposed programs in light of the attendant cost burdens to the residential and commercial classes.

5. Within 20 days of the date of this Order, Duke Kentucky shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

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

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By the Commission



ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2020-00371 DATED APR 09 2021

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 the authority of this Commission prior to the effective date of this Order.

Duke Energy Kentucky, Inc. – Electric and Gas Customers

<u>Rate Schedule Riders</u>	<u>DSM Cost Recovery Rider (DSMR)</u>
<u>Electric Rider DSM</u>	
Residential Rate RS	\$0.002175 per kWh
Transmission Level Rates & Distribution Level Rates Part B TT	\$0.000218 per kWh
Distribution Level Rates Total DS, DP, DT, GS-FL, EH & SP	(\$0.000868) per kWh
<u>Gas Rider DSM</u>	
Residential Rate RS	\$0.045817 per Ccf

\*Debbie Gates  
Duke Energy Kentucky, Inc.  
139 East Fourth Street  
Cincinnati, OH 45201

\*Duke Energy Kentucky, Inc.  
139 East Fourth Street  
Cincinnati, OH 45202

\*Minna Sunderman  
Duke Energy Kentucky, Inc.  
139 East Fourth Street  
Cincinnati, OH 45201

\*Rocco O D'Ascenzo  
Duke Energy Kentucky, Inc.  
139 East Fourth Street  
Cincinnati, OH 45201