COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR: (1) APPROVAL TO EXPAND ITS TARGETED ENERGY EFFICIENCY PROGRAM; (2) APPROVAL OF A HOME ENERGY IMPROVEMENT PROGRAM AND A COMMERCIAL ENERGY SOLUTIONS PROGRAM; (3) AUTHORITY TO RECOVER COSTS AND NET LOST REVENUES, AND TO RECEIVE INCENTIVES ASSOCIATED WITH THE IMPLEMENTATION OF ITS DEMAND-SIDE MANAGEMENT/ENERGY EFFICIENCY PROGRAMS; (4) APPROVAL OF REVISED TARIFF D.S.M.C.; (5) ACCEPTANCE OF ITS ANNUAL DSM STATUS REPORT; AND (6) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2024-00115

<u>O R D E R</u>

On May 1, 2024, Kentucky Power Company (Kentucky Power) filed an application for approval to expand its Demand Side Management (DSM) Targeted Energy Efficiency Program (TEE), and for approval of a new DSM residential Home Energy Improvement Program (HEIP) and a Commercial Energy Solutions Program.[1] In addition, Kentucky Power requested recovery of the costs for these programs through its DSM surcharge factor. By Order dated May 30, 2024, the Commission suspended Kentucky Power's revised tariffs up to and including October 31, 2024.[2] By Order dated June 12, 2024, Mountain Association, Appalachian Citizens' Law Center, Kentuckians for the

[1] Application (filed May 1, 2024).

[2] Order (Ky. PSC May 30, 2024) at 2.

Commonwealth, and Kentucky Solar Energy Society (collectively, Joint Intervenors) sought intervention and were granted party status in this case.[3] Kentucky Power responded to one set of data requests from Commission Staff and two from the Joint Intervenors. On September 20, 2024, the Joint Intervenors requested an evidentiary hearing in this matter and an Order dated October 21, 2024, set a hearing to be held on December 19, 2024. In addition, a public comments hearing was held on December 5, 2024, at the Floyd County Fiscal Court, Prestonsburg, Kentucky.

LEGAL STANDARD

KRS 278.285(1) authorizes the Commission to review and approve the reasonableness of DSM programs proposed by any utility under its jurisdiction. The statute lists multiple factors the Commission can consider when determining the reasonableness of the DSM programs. The listed factors in KRS 278.285(1) are:

> (a) The specific changes in customers' consumption patterns which a utility is attempting to influence;
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> (b) The cost and benefit analysis and other justification for specific demand-side management programs and measures included in a utility's proposed plan;
>
> (c) A utility's proposal to recover in rates the full costs of demand-side management programs, any net revenues lost due to reduced sales resulting from demand-side management programs, and incentives designed to provide positive financial rewards to a utility to encourage implementation of cost effective demand-side management programs;
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> (d) Whether a utility's proposed demand-side management programs are consistent with its most recent long-range integrated resource plan;

[3] Order (Ky. PSC June 12, 2024) at 3.

(e) Whether the plan results in any unreasonable prejudice or disadvantage to any class of customers;

(f) The extent to which customer representatives and the Office of the Attorney General have been involved in developing the plan, including program design, cost recovery mechanisms, and financial incentives, and if involved, the amount of support for the plan by each participant, provided however, that unanimity among the participants developing the plan shall not be required for the commission to approve the plan;

(g) The extent to which the plan provides programs which are available, affordable, and useful to all customers; and

(h) Next-generation residential utility meters that can provide residents with amount of current utility usage, its cost, and can be capable of being read by the utility either remotely or from the exterior of the home.

KRS 278.285(1) also states the factors listed are not exhaustive, the Commission can consider anything that will help determine if the programs are reasonable.

DISCUSSION/SUMMARY

In its application, Kentucky Power proposed to modify its existing TEE Program and introduce new residential and commercial energy audit programs. For its TEE Program, Kentucky Power requested to implement certain changes to the program including:

- Supplemental funding for the Department of Energy's (DOE) Weatherization Readiness Fund, which provides funding to low-income residential customers to ready homes so that they are eligible for benefits under the DOE's Weatherization Assistance Program. Kentucky Power noted that the supplemental funding to the Weatherization Readiness Fund will include up to $1,000 per home for 15 total homes in 2025, 20 total homes in 2026, and 25 total homes in 2027. Kentucky Power explained that it believed $1,000 in funding was an appropriate amount considering the participant count and the impact of the DOE budget.[4]

- Expanding the list of incentives eligible for supplemental funding under the Weatherization Assistance Program to include heat pump water heaters, ductless heat pumps, and ENERGY STAR room air conditioners in accordance with the recommendations of consultant GDS Associates, Inc. (GDS).[5]

- Increasing the TEE Program customer energy education expense from $50 to $75 per customer application and to increase the administration expense from $200 to $300 per customer application.[6] The education expense will cover a booklet that discusses cost-effective ways to implement energy efficiency, and the administrative expense is intended to cover the increase in labor costs incurred by the Community Action Agencies. Kentucky Power noted that the Kentucky Housing Corporation weatherization contract mandated minimum salary requirements for certain positions and provided incentives for years of service to retain qualified employees.

For the proposed new residential HEIP, Kentucky Power would provide a home energy audit to be performed at no cost to customers and provide recommendations on how to make the residence more energy efficient.[7] The program would be available on a voluntary basis to individual residential customers living in single family, multi-family, or mobile homes receiving retail electric service from Kentucky Power, and who have an electric heating, ventilation, and air conditioning system.[8] In addition to identifying overall energy reduction opportunities, the program would provide rebate incentives for the

[4] Direct Testimony of Barrett L. Nolen (Nolen Direct Testimony) (filed May 1, 2024) at 15.

[5] Application at 4.

[6] Nolen Direct Testimony at 16.

[7] Application at 5.

[8] Application at 5.

installation of certain energy conservation measures as included in Kentucky Power's modified D.S.M.C. tariff.[9]

The proposed Commercial Energy Solutions Program will provide energy audits to commercial (non-residential and non-industrial) customers in Kentucky Power's service territory. Customers would then be offered rebates for implementing qualifying energy efficiency recommendations. The maximum rebate available to a commercial customer would be $25,000 annually.[10] An inspector would perform a walk-through evaluation, identify key areas where a commercial customer could reduce energy waste, and provide recommendations to make the building more energy efficient.[11] Kentucky Power proposed to implement the program through a tiered approach by implementing the program's offerings gradually to limit the impact of the DSM surcharge and customer bills.

- In year one, Kentucky Power proposed lighting incentives under the plan, such as LED lighting, network lighting controls, occupancy sensors, and daylighting controls.[12]

- In year two of the program, Kentucky Power would add HVAC incentives for commercial A/C systems, packaged terminal heat pumps, geothermal heat pumps, air-source heat pumps, heat pump water heaters, and smart thermostats.[13]

- In year three, Kentucky Power would add food service equipment incentives, including incentives for

[9] Application at 5.

[10] Application at 7.

[11] Application at 7.

[12] Application at 7.

[13] Application at 7.

> combination ovens, fryers, steam cookers, and dishwashers.[14]

As part of the program, Kentucky Power would offer a post-audit inspection to ensure that the correct equipment was installed per the program's parameters.

Kentucky Power included its proposed DSM budgets for the existing DSM program modifications and proposed new DSM programs. In its application, Kentucky Power requested that the costs associated with these programs be processed through its DSM rider and that its residential and commercial surcharge factors be updated to reflect these costs.[15] Kentucky Power's proposed 2025 through 2027 program budgets is noted below:[16]

Year	**TEE**	**HEIP**	**Total Residential**	**Commercial Energy Solutions**	**Total DSM Budget**
2025	$358,185	$664,681	$1,022,866	$710,011	$1,732,877
2026	$370,060	$548,607	$918,667	$779,409	$1,698,076
2027	$381,935	$619,716	$1,001,651	$686,862	$1,688,513
Total	$1,110,180	$1,833,004	$2,943,184	$2,176,282	$5,119,466

Kentucky Power originally stated that the residential DSM surcharge factor would increase from its current rate of $0.000149 per kWh to $0.000644 per kWh.[17] The commercial surcharge factor would increase from ($0.000016) per kWh to $0.000565 per kWh.[18] On December 10, 2024, Kentucky Power filed an updated rate proposal, with the residential rate increasing to $0.000587 per kWh and the commercial rate increasing to

[14] Application at 7.

[15] Application at 9.

[16] Application at 6.

[17] Application at 9.

[18] Application at 9.

$0.000573 per kWh.[19] Kentucky Power's rate proposal includes the full cost of the programs and lost net revenues from sales.

Kentucky Power included efficiency incentives in the rate calculations of 15 percent.[20] Furthermore, Kentucky Power asserted that this level of incentive is appropriate, as it incentivizes Kentucky Power to manage its DSM programs in a manner that best serves its customers.[21] Kentucky Power noted that this same shared-savings mechanism is utilized by LG&E/KU and Duke Kentucky.[22]

As part of its evaluation of potential modifications and additions to its DSM portfolio, Kentucky Power completed a Market Potential Study (MPS) and filed the results with its application.[23] In summary, the MPS modeled 1,256 potential DSM/EE programs that Kentucky Power could offer. During its review process, Kentucky Power stated that it evaluated different metrics such as experience; staff location; customer and contractor support; incentive payment structure; program ramp-up; marketing; quality assurance; quality control policy; and budget. Kentucky Power then relied on the total resource cost (TRC) test to determine the most cost-effective and best option for its portfolio.[24]

[19] Kentucky Power Company's Notice of Filing Updated Estimated Proposed DSM Rates (filed Dec. 10, 2024), Supplemental Exhibit SEB-2. The Commission notes that the rate is the formula contained in Supplemental Exhibit SEB-2, subject to an annual true-up of over or under-recovery to be filed in Kentucky Power's annual DSM filing.

[20] Kentucky Power's Initial Brief (filed Jan. 22, 2025) at 9.

[21] Kentucky Power Initial Brief at 13.

[22] Kentucky Power Initial Brief at 13.

[23] Nolen Direct Testimony, Exhibit 1.

[24] Nolen Direct Testimony at 23-24.

JOINT INTERVENORS' POSITION

The Joint Intervenors provided testimony and submitted post-hearing briefs in this matter. The Joint Intervenors argued that Kentucky Power's DSM plan should be adopted with an expanded scope and key program modifications to maximize the savings, usefulness, and accessibility of the program.[25] The Joint Intervenors pointed out that the Market Potential Study highlighted such opportunities.[26] Furthermore, Joint Intervenors stated that rate sensitivity was an issue and the Joint Intervenors believe that the cost of DSM programs provides a greater rate benefit than that of supply-side options.[27] The Joint Intervenors also stated that the programs include a financial barrier that would prevent eligible customers from being able to participate in the programs.[28] The Joint Intervenors believe that enhanced rebates would assist with reducing this barrier.[29] Additionally, the Joint Intervenors stated that Kentucky Power should develop a new manufactured housing pilot program[30] and a new smart thermostat program to maximize benefits.[31]

The Joint Intervenors took exception with the recovery mechanism and surcharge rates. Specifically, the Joint Intervenors stated that Kentucky Power should only be allowed to recover Net Lost Revenues for verified savings attributed to the DSM plan

[25] Joint Intervenors' Post Hearing Brief (filed Feb. 3. 2025) at 1.

[26] Direct Testimony of Stacy L. Sherwood (Sherwood Direct Testimony) (filed Aug. 21, 2024) at 12-13.

[27] Joint Intervenors' Post Hearing Brief at 21.

[28] Joint Intervenors' Post Hearing Brief at 24.

[29] Sherwood Direct Testimony at 21.

[30] Sherwood Direct Testimony at 21

[31] Sherwood Direct Testimony at 37.

investment and that incentives should be restructured to reward the Kentucky Power for achieving performance-based goals.[32]

The Joint Intervenors also took the position that Kentucky Power should institute an Inclusive Utility Investment (IUI) program to help provide financing to customers who enroll in certain DSM programs.[33] An IUI program allows for cost recovery of behind-the-meter improvements through on-bill charges that are tied to a specific service location.[34] This program would require the company to provide up-front capital to pay for DSM upgrades and recover its investment costs through an on-bill charge on the customer's bill.[35] The IUI charge would be associated with the meter at the location instead of an individual customer, so if the owner or tenant switched, the charge would transfer to the next occupant.[36]

In addition to the positions listed above, Joint Intervenors' witness Stacy Sherwood provided a list of overarching recommendations for Kentucky Power to undertake. These proposals included:

- Developing a three-year plan that ramps up to achieve 0.2 percent energy efficiency savings as a percent of 2022 sales;
- Exploring financing opportunities and identifying financing partners to support energy efficiency projects for both residential and commercial customers;

[32] Joint Intervenors' Post Hearing Brief at 41-44.

[33] Direct Testimony of Bradley G. Harris (Harris Direct Testimony) (filed on Aug. 21, 2024) at 4-8.

[34] Harris Direct Testimony at 4.

[35] Harris Direct Testimony at 4.

[36] Harris Direct Testimony at 5.

- Providing a transparent and clear reporting process, based upon feedback from stakeholders; and

- Develop guidelines related to collaborative process for discussing the DSM Plans.[37]

KENTUCKY POWER'S RESPONSE BRIEF

In its response brief, Kentucky Power reiterated its position that the proposed DSM portfolio should be expanded and should be approved as proposed because the programs are cost-effective, conscious of the impact on customer rates, and are reasonable within the meaning of the DSM statute.[38] Kentucky Power disagreed with the Joint Intervenors' proposal to modify the proposed plan because the impact to customer rates is unknown.[39]

In response to the Joint Intervenors arguing that the DSM plan should be expanded further to include what the MPS labeled as "reasonably achievable," Kentucky Power argued that it must be conscious of the costs and that it should not add more programs without assessing participation and effectiveness.[40]

Kentucky Power also stated that it considered the issue of removing financial barriers when developing the programs by enhancing the rebate offerings within these programs.[41] Kentucky Power argued that Joint Intervenors' proposed modification to the HEIP and Commercial Energy Solutions Program to include enhanced rebates for low- and moderate-income customers should be rejected because the TEE program was

[37] Sherwood Direct Testimony at 6.

[38] Kentucky Power's Response Brief (filed Feb. 3, 2025) at 2.

[39] Kentucky Power's Response Brief at 6.

[40] Kentucky Power's Response Brief at 3.

[41] Kentucky Power's Response Brief at 4.

already intended for low-income customers and offering additional rebates would be duplicative.[42] Furthermore, Kentucky Power stated that initiating financing options or evaluating an IUI program is not in the best interest of the ratepayers. Kentucky Power stated that it is not in a financial position to support financing measures or the administrative costs of an IUI program and stated that costs would be borne by all ratepayers.[43] Kentucky Power argued that IUI programs have not consistently indicated that they are cost effective, and Kentucky Power is not in a financial position to outlay the capital to support an IUI program.[44]

In response to the Joint Intervenors' proposal that Kentucky Power should develop a new manufactured housing and smart thermostat program, Kentucky Power argued that the proposal was unreasonable and lacks evidence that they are cost effective.[45] Kentucky Power asserted that residential customers with manufactured housing can participate in both the HEIP and, if income eligible, the TEE program.[46] Furthermore, Kentucky Power argued that it completed a MPS, which did not recommend proposing a program dedicated to new manufactured homes.[47]

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[42] Kentucky Power's Response Brief at 4.

[43] Kentucky Power's Response Brief at 8.

[44] Kentucky Power's Response Brief at 8.

[45] Kentucky Power's Response Brief at 8-9.

[46] Kentucky Power's Response Brief at 9.

[47] Kentucky Power's Response Brief at 9.

DISCUSSION AND FINDINGS

Based on a review of the case record, the Commission finds that Kentucky Power's request to modify and expand its DSM portfolio should be approved with certain modifications, as discussed below.

Kentucky Power proposed to modify its TEE program to include additional supplemental funding for the Weatherization Readiness Fund by up to $1,000 per home for 15 total homes in 2025, 20 total homes in 2026, and 25 total homes in 2027.[48] The proposal also included expanding the list of incentives eligible for supplemental funding under the Weatherization Assistance Program to include heat pump water heaters, ductless heat pumps, and ENERGY STAR room air conditioners.[49] The modifications will allow additional resources for at-need residential customers in Kentucky Power's territory. The Commission recognizes the evidence of record that indicates that Kentucky Power's service area includes a large number of residents in need of home weatherization and appliance upgrades to assist with energy waste and the resulting cost. These programs were designed to specifically assist qualifying customers address these issues. The additional financial resources, the expansion of the number of homes to be serviced each year, and the expanded appliance options will allow more customers to participate and expand the opportunity for reduced energy consumption. In addition, Kentucky Power witness Tanner Wolffram testified during the evidentiary hearing that the Kentucky Power Foundation provided a $1,000,000 weatherization grant to be distributed to several

[48] Nolen Direct Testimony at 15.

[49] Nolen Direct Testimony at 14-15.

Community Action Agencies in its service area.[50] Kentucky Power stated the grant would provide funding for critical home repairs that are necessary for homeowners to qualify for the federally funded Department of Energy Weatherization Assistance Program.[51]

The Commission finds the modifications to the TEE Program as proposed by Kentucky Power to be reasonable and that they should be approved.

Kentucky Power requested to implement two new energy audit DSM programs that will provide its customers an additional opportunity to identify areas of energy loss. The residential HIEP and the Commercial Energy Solutions programs are designed to have consultants meet with Kentucky Power customers to assess homes or facilities and provide guidance and insight on potential energy efficiency measures that could be implemented to reduce the customer's energy consumption over time. The Commission recognizes these opportunities should provide Kentucky Power customers with additional awareness of issues that impact their energy consumption.

The Commission recognizes that implementing these two new audit programs comes with additional costs that would be collected through Kentucky Power's DSM surcharge factor. As such, the Commission makes the following modifications to the HIEP and Commercial Energy Solutions program tariffs.

The two new audit programs should be established as pilot programs with a three-year evaluation period. Additionally, Kentucky Power should include the program progress and updated costs in its annual DSM filings with the Commission. The Commission will monitor the two programs, based on Kentucky Power's annual DSM

[50] Hearing Video Transcript (HVT) of the Dec. 19, 2024 Hearing at 00:20:40–00:21:00.

[51] HVT of the Dec. 19, 2024 Hearing at 02:49:20–02:50:32.

filings, and assess the success of the programs over time. At least six months prior to the end of the three-year pilot program, Kentucky Power should file a request with the Commission, including supporting documentation, to extend the pilot, request for the programs to be approved as a permanent program, or to discontinue the program.

The Joint Intervenors argued that while they agreed with Kentucky Power's proposal, they believe that the programs and overall portfolio should be expanded to include additional DSM opportunities, including citing specific DSM program options. The Joint Intervenors stated in their testimony and post-hearing briefs that implementing additional programs would be more cost-effective over time than supply-side options. The Commission recognizes the argument presented by the Joint Intervenors, but the Commission must balance the known cost impact to customers. In its proposal, Kentucky Power provided specified cost impact to its customers for the expansion of its DSM portfolio. This information is necessary to ensure that ratepayers are not overly burdened by unknown costs. Based on the record, the Commission does not find it reasonable to compel Kentucky Power to convene a IUI working group as there is no evidence that the program would be cost-effective or that Kentucky Power is in a financial position to support the up-front capital. The Commission encourages Kentucky Power to continue to evaluate its DSM portfolio and explore additional opportunities to provide energy savings to its customers and reduce reliance on adding supply-side resources while balancing the financial impact to customers.

Additionally, the Joint Intervenors took exception to Kentucky Power's incentive proposal of 15 percent and recommended that an incentive should be designed to reward Kentucky Power for achieving specific performance-based goals. The Commission has not previously established performance-based goals for Kentucky Power, but finds it reasonable to approve the incentive program, as proposed, because the evidence of record indicates that it is designed to encourage the utility to manage its DSM programs to best serve its customers.

The Commission also finds that the DSM cost recovery mechanism and surcharge proposed by Kentucky Power should be approved. The surcharge incorporates the impact of the DSM portfolio changes. The rates are included in the Appendix to this Order.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's modifications to its Targeted Energy Efficiency Program and D.S.M.C. tariff are approved.

2. Kentucky Power's request to establish a new residential Home Energy Improvement Program and to modify its D.S.M.C. tariff is approved, with the conditions expressed in this Order.

3. Kentucky Power's request to establish a new Commercial Energy Solutions program and to modify its D.S.M.C. tariff is approved, with the conditions expressed in this Order.

4. Kentucky Power's proposed DSM recovery mechanism and the DSM surcharge factors as set forth in the Appendix to this Order are approved for service rendered on or after the date of this Order.

5. At least six months prior to the end of the three-year Home Energy Improvement pilot program, Kentucky Power shall file a request with the Commission,

including supporting documentation, to extend the pilot, request for the programs to be approved as a permanent program or to discontinue the program.

6. At least six months prior to the end of the three-year Commercial Energy Solutions pilot program, Kentucky Power shall file a request with the Commission, including supporting documentation, to extend the pilot, request for the programs to be approved as a permanent program, or to discontinue the program.

7. Within 20 days of the date of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required in this Order, and reflecting their effective date and that they were authorized by this Order.

8. Kentucky Power shall include a true-up of over- or under-recovery for the variable costs of the proposed programs under the D.S.M.C. tariff in its annual DSM filing.

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

PUBLIC SERVICE COMMISSION

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Chairman

John Will Stacy/AH
____
Commissioner

Mary Pat Regan
____
Commissioner

ENTERED
FEB 28 2025 AH
KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Linda Bridwell PP
____
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00115 DATED FEB 28 2025

	Current Rates Per kWh	New Rates Per kWh
Residential	$0.000149	$0.000587
Commercial	($0.000016)	$0.000573

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