

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION PURSUANT TO 1994)
HOUSE BILL NO. 501 FOR THE APPROVAL OF)
THE KENTUCKY POWER COMPANY ("KPCO"))
COLLABORATIVE DEMAND-SIDE MANAGEMENT)
PROGRAMS, AND FOR AUTHORITY FOR KPCO) CASE NO. 95-427
TO IMPLEMENT A TARIFF TO RECOVER)
COSTS, NET LOST REVENUES AND RECEIVE)
INCENTIVES ASSOCIATED WITH THE)
IMPLEMENTATION OF THE KPCO COLLABORATIVE)
DEMAND-SIDE MANAGEMENT PROGRAMS)

ORDER

On September 27, 1995, an application for approval of a demand-side management ("DSM") plan was filed by Kentucky Power Company ("Kentucky Power"), the Office of the Kentucky Attorney General, the Kentuckians for the Commonwealth, Community Action Agencies Group, Kentucky Power Customers Alliance, Coleman Oil Company, Kentucky Tech Northeast Region, Cedar Knoll Galleria, and Kentucky Industrial Utility Customers. The plan, filed pursuant to KRS 278.285, includes ten initial DSM programs, a collaborative process to evaluate and monitor initial programs and consider additional programs, and an experimental DSM adjustment clause tariff designed to recover DSM program costs and lost revenues and incentives associated with the initial DSM programs. The proposed plan would be in effect for at least three years.

Under the proposed DSM plan, six DSM programs would be offered to residential customers: energy fitness, targeted energy efficiency, compact fluorescent bulbs, high-efficiency heat pumps, high-efficiency heat pumps for mobile homes, and mobile home new

construction. In addition, two DSM programs would each be offered to commercial and industrial customers: energy efficiency audits and financing for efficiency improvements. The combined costs of the DSM programs are estimated to be approximately \$5.7 million. The initial DSM programs are projected to save 36,141 megawatt-hours in annual energy and reduce winter peak demand by 13,157 kilowatts and summer peak demand by 6,112 kilowatts.

The Kentucky Power Demand-Side Management Collaborative ("Collaborative"), whose members represent residential, commercial, and industrial customers, was established in November 1994 to develop the DSM plan, including program designs, budgets, and cost recovery mechanisms. The Collaborative consists of the above-named parties, who are voting members, and several non-voting members. The Collaborative will be responsible for the on-going implementation, monitoring, and evaluation of the initial DSM programs and consideration of new DSM programs.

The proposed DSM plan includes an Experimental Demand-Side Management Adjustment Clause Tariff which is designed to recover the costs related to all ten initial DSM programs, as well as the appropriate levels of net lost revenues and incentives associated with the DSM programs. In addition to the projected \$5.7 million in program costs, Kentucky Power expects to recover approximately \$1.7 million in lost revenues and \$685,000 in incentives through the proposed tariff. Therefore, over the three-year period of the DSM plan, Kentucky Power will recover approximately \$8.1 million.

At an informal conference held on November 8, 1995, the Collaborative reported that funding for residential DSM programs will begin as soon as the Commission approves the DSM plan. However, funding for commercial and industrial programs may be delayed until those programs are fully implemented. To avoid charging commercial or industrial customers for DSM costs before funds are expended, the cost recovery tariff should not be applied to those customers until Kentucky Power files a written notice of intent to begin funding those programs.

The Collaborative also stated that adjustments to the DSM cost recovery clause would be made at least annually and possibly more often. Reports on the operation and progress of the DSM plan could be made to the Commission on a regular basis.

The Commission is authorized by KRS 278.285 to determine the reasonableness of and approve utility DSM plans that include mechanisms to recover the full costs of DSM programs, revenues lost by implementing these programs, and incentives for implementing cost-effective DSM programs. Based upon its review of Kentucky Power's proposed DSM plan, and being otherwise sufficiently advised, the Commission finds that the DSM plan is reasonable and cost-effective, and should be approved for the period ending December 31, 1998, except as modified below.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's DSM plan to (i) implement certain DSM programs, (ii) establish a collaborative process for the approval of additions and modifications to programs, and (iii) implement

electric tariffs to recover costs associated with the implementation of DSM programs, which include lost revenues and incentives related to those programs, be and hereby is approved as provided in this Order for the period ending December 31, 1998.

2. Within ten days from the date of this Order, Kentucky Power Company shall file a revised Experimental Demand-Side Management Adjustment Clause tariff which removes initial DSM adjustment factors for commercial and industrial customers from paragraph 8 of the tariff.


3. Kentucky Power shall file a written notice of intent to begin funding commercial or industrial DSM programs prior to recovering any costs from these customer classes. Such notice shall be accompanied by a revised Experimental Demand-Side Management Adjustment Clause tariff with initial DSM adjustment factors for commercial and industrial customers added to paragraph 8 of the tariff.


4. The surcharge factors in the Experimental Demand-Side Management Adjustment Clause tariff shall be subject to adjustments at least annually but not more frequently than semi-annually.

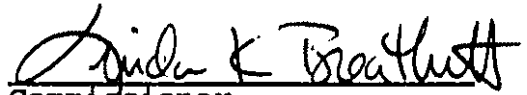
5. Kentucky Power shall file, on May 31, 1996 and every six months thereafter, a report which describes the operation and progress of the DSM plan and includes any studies, analyses, or reports prepared by any Collaborative member or consultant on any aspect of the DSM plan, including but not limited to reviews of the engineering estimates of DSM program load impacts used in program design and initial net lost revenue and incentive calculations.

Done at Frankfort, Kentucky, this 4th day of December, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director