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 AMERICAN ELECTRIC POWER/KENTUCKY POWER COMPANY ("AEP/KENTUCKY") COLLABORATIVE DEMAND-SIDE MANAGEMENT PROGRAMS, AND FOR AUTHORITY TO IMPLEMENT A TARIFF TO RECOVER COSTS, NET LOST REVENUES AND RECEIVE INCENTIVES ASSOCIATED WITH THE IMPLEMENTATION OF THE AEP/KENTUCKY COLLABORATIVE DEMAND-SIDE MANAGEMENT PROGRAMS	)	CASE NO. 95-427

O R D E R

On August 16, 1999, American Electric Power/Kentucky Power Company ("AEP/Kentucky") filed, on behalf of its Demand-Side Management Collaborative ("Collaborative"), an application that included a status report of its approved Demand-Side Management ("DSM") plan, individual evaluation reports of each approved DSM program, and revised DSM tariffs that adjust the DSM adjustment clause factors for each customer class. The application also included a request for approval of a three-year extension of the existing DSM plan, through the year 2002, continuation of four residential DSM programs and two commercial DSM programs for that three-year period, and authority to cease applying the proposed industrial DSM factor to customer bills with the last billing cycle in December 1999.[1]

The status and evaluation reports describe, among other things, the progress of individual DSM programs, year-to-date and program-to-date costs of each program through June 1999, AEP/Kentucky's comments on the activity levels, number of participants, and budget projections for calendar year 2000 for the programs which it proposes to continue. The filing did not include proposals for any new programs but did reflect the Collaborative's decision to discontinue the Energy Fitness residential DSM program in May 1999 due to declining consumer response despite continued efforts to promote the program.

With the termination of the Energy Fitness program, AEP/Kentucky's DSM plan consists of four residential programs: (1) Targeted Energy Efficiency; (2) High Efficiency Heat Pumps-Retrofit; (3) Mobile Home High Efficiency Heat Pumps; and (4) Mobile Home New Construction; and two commercial programs; (1) Smart Incentive and (2) Smart Audit. For calendar year 2000 the projected budget for the six programs is approximately $1,030,000.

Status and Changes in Programs

AEP/Kentucky provided evaluations of all the DSM programs that it proposes to continue, both residential and commercial. From those evaluations and the comments provided by AEP/Kentucky all programs are cost-effective based on the Total Resource Cost ("TRC") test, one of the standard tests used to measure the cost-effectiveness of

[1] An Order approving AEP/Kentucky's requested treatment of the industrial DSM factor was issued in this proceeding on September 28, 1999.

DSM programs, except for the Targeted Energy Efficiency ("TEE") program. The TEE program, which is the second largest residential program in terms of total expenditures, is a conservation and weatherization program targeted toward low-income customers. AEP/Kentucky recognizes that, even though it had made several modifications to the program, the TEE program is still not cost-effective on a stand-alone basis. Citing cutbacks in similar government-sponsored programs, AEP/Kentucky requests that the TEE program be continued due to its impact on reducing consumption, making customers' utility bills more affordable and reducing the level of customer arrearages, collection costs, and uncollectible accounts that it incurs. Moreover, AEP/Kentucky emphasized that when its four residential programs are packaged together for evaluation purposes the overall package was cost-effective, with a 1.40 benefit-to-cost TRC test result.

AEP/Kentucky also requests, due to the nature of the TEE program and the fact that it has not been cost-effective, that the Commission not require the performance of regular benefit-cost evaluations of the program. AEP/Kentucky proposed this as an attempt to reduce administrative costs and make the program somewhat more cost-effective than it is at present. AEP/Kentucky did propose to continue annual impact evaluations of the TEE program.

Through information requests the Commission determined that, when TEE program participants are segregated between electric heating customers and non-electric heating customers, the non-electric heating segment of the program is cost-effective on a stand-alone basis. AEP/Kentucky acknowledged this situation through information responses but indicated that the weatherization agencies from which it receives its potential participant lists do not have a sufficient backlog of non-electric heating customers to justify increasing the number of non-electric heating customers participating in the TEE program.

The Commission has previously expressed serious concerns about continuing DSM programs that are not cost-effective or appear incapable of being made cost-effective. We strongly encourage AEP/Kentucky to seek out ways improve the cost-effectiveness of the TEE program and to attempt to serve a larger percentage of non-electric heating customers as a means of improving the program's overall cost-effectiveness. This might require reliance on parties other than the weatherization agencies it has historically relied upon to identify potential customers. Given that AEP/Kentucky's entire residential customer class is split approximately 50-50 between electric heating and non-electric heating customers it is highly probable that there is a similar 50-50 split among low-income customers that qualify for the TEE program. Agencies that administer other low-income programs such as food stamps, government-subsidized housing, etc. might be other sources of identifying non-electric heating customers that would qualify for the TEE program.

Having offered these suggestions for improving the cost-effectiveness of the TEE program, the Commission will approve a three-year continuation of existing programs in AEP/Kentucky's DSM plan. We do this in recognition of the program benefits cited by AEP/Kentucky and its Collaborative, the changes made to the TEE program to improve its cost-effectiveness, and the fact that the total package of residential programs produces a benefit-to-cost ratio of 1.40, based on the TRC test. This approval is only for a one-time three-year extension, through the end of 2002. Prior to the end of this three-year extension AEP/Kentucky must file separate cost evaluations for each DSM program that it proposes to continue beyond 2002. These evaluations shall reflect the results of the first two years of the three-year extension and shall be filed with the Commission no later than August 15, 2002. The Commission will review all DSM programs at that time to determine whether they are eligible to continue, either in their present form or with some modification, based on their cost-effectiveness or other demonstration of their benefits to AEP/Kentucky and its ratepayers

Tariff Proposals

AEP/Kentucky proposed changes to the existing DSM adjustment clause factors for each customer class. The methodology for calculating the factors is the same as was used in the original AEP/Kentucky DSM application and in each of the semi-annual filings that have been made since the Commission's approval of the original application. The revised factors are reasonable and reflect the expected cost levels for 2000 and the true-up of prior period DSM costs and revenues.

SUMMARY

IT IS THEREFORE ORDERED that:

1. AEP/Kentucky's continuing DSM programs for residential and commercial customers are approved, on a pilot basis, for an additional three years, which extends the programs through the year 2002.

2. AEP/Kentucky shall continue to make semi-annual status filings with the Commission in the same manner as was done in the initial pilot phase of its DSM plan. However, it shall not be required.to perform any benefit-cost evaluation of the TEE

program until such time as it submits its evaluations of all programs for the first two years of the three-year extension granted herein.

3. AEP/Kentucky shall file, on an annual basis, separate impact evaluations for the residential and commercial DSM programs being extended for the next three years. Separate benefit-cost evaluations for the first two years of the three-year extension, shall be filed no later than August 15, 2002.

4. At the end of the three-year extension, AEP/Kentucky shall discontinue or modify any DSM program, as Ordered by the Commission, that is not cost-effective or does not produce other benefits to AEP/Kentucky and its ratepayers.

5. AEP/Kentucky's proposed revisions to its Experimental Demand-Side Management Adjustment Tariff are approved to be effective for service rendered on and after the date of this Order.

6. Future filings regarding AEP/Kentucky's DSM programs shall not be filed under this docket number. These filings will be assigned new case numbers at the time they are filed with the Commission.

Done at Frankfort, Kentucky, this 28th day of February, 2000.

By the Commission

ATTEST:

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Executive Director