COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF THE LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR THE REVIEW, MODIFICATION AND CONTINUATION OF DSM PROGRAMS AND COST RECOVERY MECHANISMS	)))))	CASE NO. 2000-00459

O R D E R

On September 29, 2000, the Louisville Gas and Electric Company and Kentucky Utilities Company (collectively LG&E/KU or Companies) filed for approval of their 2000-2007 Demand-Side Management (DSM) Plan. Intervening were the Kentucky Natural Resources and Environmental Protection Cabinet s Division of Energy (DOE), the Air Pollution Control District of Jefferson County (APCD), the Attorney General of the Commonwealth of Kentucky (AG), Metro Human Needs Alliance and People Organized and Working for Energy Reform (MHNA/POWER), the Community Action Council for Lexington-Fayette, Bourbon, Nicholas and Harrison Counties (CAC), the Kentucky Association for Community Action (KACA), and Kentucky Industrial Utility Customers, Inc. (KIUC).

The Commission approved LG&E/KU s DSM plan by Order dated May 11, 2001. That Order also identified the following intervenor issues as warranting further investigation: DOE s proposal to expand the Companies residential and commercial conservation programs to include provisions for greater energy efficiency in new buildings constructed in the Companies service territories; APCD s proposal to expand the residential conservation program from 6,000 to 35,000 participants; and APCD s proposal to extend the terms of the low-income weatherization and residential conservation programs from 5 to 7 years. DOE and APCD filed testimony in support of their proposals and LG&E/KU filed rebuttal testimony. A formal hearing was conducted on October 19, 2001. Post-hearing briefs were filed by LG&E/KU, DOE, APCD and the AG, and the case now stands submitted for decision.[1]

BACKGROUND

The LG&E/KU DSM plan includes three residential programs (conservation, load management, and low-income weatherization), two commercial programs (conservation and load management), and one industrial program (lighting). DOE argues that the Companies conservation programs should be expanded to include provisions for greater energy efficiency in new buildings constructed in their service territories. APCD argues for expanding LG&E s residential conservation program from 6,000 to 35,000 participants and extending the term of the residential conservation and low-income weatherization programs from 5 to 7 years.

DOE recommends that LG&E/KU be required to analyze a broad range of new construction provisions. Among other things, those provisions include: (1) incentives to builders and designers; (2) LG&E/KU being involved in building design decisions; (3) LG&E/KU maintaining a clearinghouse of the most current information on design methods; and (4) a change in electric connection fees for commercial buildings to require a feebate (i.e. a reduced fee for energy efficient buildings and a higher fee for less energy efficient buildings). LG&E/KU and the AG argue against DOE s proposals, citing the lack of any Kentucky-specific analysis or cost-benefit analysis,

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[1] MHNA/POWER, CAC, KACA, and KIUC did not participate in this phase of the case.

Kentucky-based or otherwise. LG&E/KU and the AG also point to the analysis of these types of programs that was done as part of the screening of DSM options contained in the Companies 1999 Integrated Resource Plan (IRP), which showed that such programs would not help achieve their DSM goals of reducing peak demand and improving system load factors. The AG points to the fact that the programs cited as successful by DOE are in states with high electric rates where the potential savings from reduced energy consumption are much greater than in states with low rates such as Kentucky. The AG also cites the fact that DOE has made no attempt to quantify the cost of its proposals, much less their impact on customers bills. LG&E/KU maintain that the feebate proposal is inconsistent both with their tariffs and the Commission s regulations on customer connections.

APCD proposes that the residential conservation program be expanded to cover nearly 30,000 customers more than has already been approved. It cites the reduction in energy production and the related reductions in emissions as the primary reasons for its proposal. LG&E/KU and the AG oppose APCD s proposal based on the lack of cost effectiveness, citing APCD s evidence, which shows that its proposal would reduce peak demand by 4.6 percent more than the Companies program, but at a cost 22 percent greater than the cost of their program. LG&E/KU state that while APCD s proposal will result in significant energy reductions, the relative lack of demand reductions is inconsistent with their primary DSM goal of reducing summer season coincident peak demand.

APCD also proposes that the term of the residential conservation and low-income weatherization programs be extended from 5 to 7 years, which is the term of the other programs included in LG&E/KU s DSM plan. LG&E/KU agree to extend the term of the two programs so long as the budget for year 5 of each program is carried forward as the annual budget for both years 6 and 7.

DISCUSSION

The Commission will deny the proposal to expand the residential and commercial conservation programs to include the new construction - energy efficiency provisions proposed by DOE. When included in the DSM screening analysis contained in the Companies most recent IRP, these types of provisions did not demonstrate an ability to reduce peak demand or improve system load factors, which are LG&E/KU s primary DSM goals. More importantly, DOE provided no analysis of the types of proposals it is advocating to demonstrate their effectiveness considering LG&E/KU s low rates and costs. Therefore, we find that the expansion proposed by DOE should be denied.

The Commission will also deny APCD s proposal to expand the residential conservation program from 6,000 to 35,000 participants. There was no true cost-benefit analysis performed to support such an expansion. While there may be environmental benefits through emissions reductions, APCD did not claim that LG&E/KU were not complying with current emission limits and were in need of further reductions to achieve compliance. Furthermore, the evidence provided by APCD shows that the cost increase for the expansion far outweighs the expected demand reduction. We find, therefore, that APCD s proposal to expand the residential conservation program should be denied.

The Commission further finds that the extension of the residential conservation and low-income weatherization programs proposed by APCD for 2 additional years, for a term of 7 years, is reasonable and should be approved. With this approval we will require that the budget level for the fifth year of the programs be continued as the budget level for both the sixth and seventh years, as requested by LG&E/KU.

SUMMARY

IT IS THEREFORE ORDERED that:

1. DOE s proposal to expand the scope of LG&E/KU s residential and commercial conservation programs is denied.

2. APCD s proposal to increase the number of participants in the residential conservation program from 6,000 to 35,000 is denied.

3. APCD s proposal to extend the term of the residential conservation and low-income weatherization programs from 5 to 7 years with the year 5 budget levels being continued for years 6 and 7 is approved.

Done at Frankfort, Kentucky, this 12th day of February, 2002.

By the Commission

ATTEST:

Deborah T. Eversole for
Thomas M. Dorman

Executive Director