

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE DEMAND SIDE MANAGEMENT PROGRAMS AND	)	
DEMAND SIDE MANAGEMENT COST RECOVERY	)	CASE NO.
FILING OF AMERICAN ELECTRIC POWER D/B/A	)	2002-00047
KENTUCKY POWER COMPANY	)	

O R D E R

On February 14, 2002, American Electric Power d/b/a Kentucky Power Company ( AEP-Kentucky ) filed on behalf of its Demand-Side Management Collaborative ( Collaborative ) an application that contained the following:

1. Evaluation reports for each of its existing Demand-Side Management ( DSM ) programs.
2. A third-party quality control inspection report performed on the Targeted Energy Efficiency ( TEE ) program.
3. A revised Experimental DSM Adjustment Tariff ( DSM Tariff ) that adjusts the DSM surcharge factors for residential and commercial customers.
4. Estimated cost reductions that may be realized as a result of implementing its Residential Energy Assistance Program ( REAP ) on a pilot basis later this year.

All the DSM issues, except those related to AEP-Kentucky's REAP program, were addressed in the Commission's Order dated March 27, 2002. AEP-Kentucky did not include any REAP costs in its proposed surcharges, which were approved in that Order. Issues related to REAP were discussed in an informal conference held on

February 27, 2002, and were addressed further in AEP-Kentucky's responses to Commission Staff's data requests.

### BACKGROUND

The REAP program was first presented to the Commission in AEP-Kentucky's August 2001 semi-annual DSM filing in Case No. 2001-00255.<sup>1</sup> Therein, AEP-Kentucky described REAP and indicated that it expected to begin the program sometime in 2002. REAP, as developed by AEP-Kentucky and its Collaborative, is based on the All Seasons Assurance Program (ASAP) that had operated in the Louisville Gas and Electric Company (LG&E) service territory through 2001 by Affordable Energy Corporation. The technical aspects of REAP are similar to ASAP as it operated through 2001, while its administrative structure is similar to LG&E's modified ASAP approved on a pilot basis in Case No. 2001-00323.<sup>2</sup> AEP-Kentucky has proposed no consultative board or outside vendors, and all administrative functions will be performed by AEP-Kentucky or local Community Action Agencies. These similarities, plus the fact that AEP-Kentucky is not a combined gas and electric utility with the attendant need to

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<sup>1</sup>Case No. 2001-00255, Joint Application Pursuant to 1994 House Bill No. 501 for the Approval of American Electric Power/Kentucky Power Company 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.

<sup>2</sup>Case No. 2001-00323, Joint Application of Louisville Gas and Electric Company, Metro Human Needs Alliance, People Organized and Working for Energy Reform, Kentucky Association for Community Action, and Jefferson County Government for the Establishment of a Home Energy Assistance Program.

ensure proper cost allocation, mitigate many of the issues identified by the Commission in the LG&E case.

In Case No. 2001-00255, AEP-Kentucky requested some direction from the Commission on going forward with REAP prior to incurring any significant costs related thereto. In its September 27, 2001 Order, the Commission approved the program but gave notice that any savings related to the program would have to be taken into consideration when determining the level of REAP costs to be recovered through future DSM surcharges.

In response to that Order in Case No. 2001-00255, AEP-Kentucky's pending application included calculations of the estimated savings, or cost reductions, related to implementing REAP. Those savings, which had been previously identified, but not quantified, pertain to reductions in arrearages, uncollectibles, service terminations, disconnect notices and cut-off notices. The Commission has reviewed AEP-Kentucky's calculations and is satisfied that the methodology used produces a reasonable estimate of cost savings to be netted against REAP program costs when determining any future surcharges.

AEP-Kentucky's application also included projected REAP budgets for calendar years 2002 and 2003. For 2002 the amount is roughly \$75,000, while for 2003 the amount is approximately \$385,000. AEP-Kentucky estimates that the DSM surcharge to recover the 2002 costs will add 3 cents to the monthly bill of an average residential customer using 1,000 Kwh. For 2003, AEP-Kentucky estimates that the budgeted costs of \$385,000 will add 16.5 cents to the bill of an average customer using 1,000 Kwh.

## CURRENT ISSUES

The issues discussed at the February 27, 2002 informal conference and subsequently included in the data requests are: (1) whether the costs for REAP should be set out as a separate item on customers bills; and (2) whether there should be some shareholder contribution to the funding of the program. In its data responses, AEP-Kentucky indicated that it saw no need to have the surcharge for REAP separately identified on customers bills. AEP-Kentucky maintains that since low-income home energy assistance programs, such as REAP, are statutorily defined as DSM programs, their costs should be considered and charged to customers in the same manner as in traditional DSM programs, through one separately identified charge for all programs. In opposing shareholder contribution to the funding of energy assistance programs, AEP-Kentucky argues that it was the intent of the General Assembly that the full cost of all DSM programs, including energy assistance programs, be recovered from ratepayers. To support this argument, it cites KRS 278.285(2), which provides in pertinent part:

- A proposed demand side management mechanism, including:
- (a) Recover the full costs of commission-approved demand-side management programs and revenues lost by implementing such programs;
  - (b) Obtain incentives designed to provide financial rewards to the utility for implementing cost-effective demand-side management programs; or
  - (c) Both of the actions specified may be reviewed and approved by the commission . . . .

KRS 278.285(2).

The Commission is not persuaded by AEP-Kentucky's arguments on these issues. First, while low-income home energy assistance programs have been defined by the Kentucky General Assembly to be DSM programs, it is clear that such programs are a non-traditional form of DSM because an amendment to KRS 278.285 was

necessary to expand the statutory definition of DSM to include such programs. The non-traditional nature of these low-income assistance programs is further emphasized by the fact that another amendment to KRS 278.285 places specific limits on the criteria the Commission may consider in reviewing low-income assistance programs. Under KRS 278.285(4), the Commission can only consider the criteria in KRS 278.285(1)(f) and (3) when reviewing a low-income assistance program. In addition, a customer's eligibility for home energy assistance is not based on any criteria related to energy consumption. Rather, eligibility is based solely on income. Thus, all residential customers are assessed the cost for a program that is available only to low-income customers. For these reasons, the Commission finds that the costs of low-income home energy assistance programs, such as REAP, should be reflected on customers bills separately from the costs of traditional DSM programs.

On the issue of shareholder funding, we find no merit in AEP-Kentucky's argument that the General Assembly intended that ratepayers pay the full cost of such programs. Under KRS 278.285(4), the section of the DSM statute that authorizes low-income energy assistance programs to be included as DSM, the Commission is expressly restricted to considering only criteria in KRS 278.285(1)(f) and (3) in its review of such programs. Thus, the provisions of KRS 278.285(2) that set forth criteria for cost recovery and incentives are not applicable to a low-income energy assistance program.

While the Commission finds that AEP-Kentucky has no absolute right under KRS 278.285 to recover all costs for low-income home energy assistance programs, it is unnecessary to decide now whether AEP-Kentucky's shareholders should provide funding for REAP. As stated in the December 27, 2001 Order in Case No. 2001-00323,

the Commission believes that shareholders should contribute to such programs. However, given the relatively small budget for REAP in 2002, we find this level of costs to be reasonable to be borne by ratepayers without shareholder funding. For this reason, AEP-Kentucky may implement REAP as proposed for 2002 with no requirement that shareholders bear any of the roughly \$75,000 in net budgeted costs.

Looking ahead to 2003, when REAP's annual budget is projected to grow by over five times, to \$385,000, the Commission anticipates analyzing in-depth the issue of shareholders funding a portion of the costs of REAP. Therefore, we find that AEP-Kentucky should be prepared, as part of its semi-annual DSM filing scheduled for February 2003, to address this issue and to provide a summary report on REAP for the months of 2002 in which it was in effect. Until such time as the Commission has revisited the issue of shareholder funding of REAP and reviewed AEP-Kentucky's summary report of REAP for calendar year 2002, the amount recoverable from AEP-Kentucky's ratepayers through the DSM surcharge will be limited to any REAP costs approved in conjunction with AEP-Kentucky's next semi-annual DSM filing.

#### OTHER ISSUES

A matter addressed in Case No. 2001-00255 was the propriety of including a maximizing incentive in AEP-Kentucky's total costs associated with REAP. Therein, the Commission found that such an incentive was permitted under the cost recovery provisions of AEP-Kentucky's DSM plan for programs for which demand or energy reductions are not easily quantified. However, our review of AEP-Kentucky's argument against shareholder funding of REAP indicates that our prior finding was erroneous and must be revised. The limiting language contained in KRS 278.285(4) restricts the

Commission to consideration only of the factors provided in KRS 278.285(1)(f) and (3) when reviewing home energy assistance programs. Since the statutory factors involving recovery of full costs and incentives are set forth in KRS 278.285(1)(c) and (2)(b), such factors cannot be authorized as part of energy assistance programs. Although AEP-Kentucky has not sought recovery of any costs related to REAP at this time, addressing this issue now is appropriate so that AEP-Kentucky knows, prior to implementing REAP, that no incentives will be recoverable.

#### SUMMARY

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

1. AEP-Kentucky may implement on a pilot basis REAP with program expenditures in an amount of approximately \$75,000 budgeted for calendar year 2002.
2. Any future DSM surcharges that include REAP costs should reflect program costs net of estimated savings with no provision for a maximizing incentive.
3. Any REAP costs to be recovered from AEP-Kentucky ratepayers through a DSM surcharge should be shown on customers bills separately from any other DSM surcharge.
4. Recovery of increased REAP costs will be considered only after the Commission revisits the issue of shareholders funding a portion of those costs and reviews AEP-Kentucky's summary report of REAP for calendar year 2002.

IT IS THEREFORE ORDERED that:

1. AEP-Kentucky is authorized to implement on a pilot basis REAP as proposed in calendar year 2002.

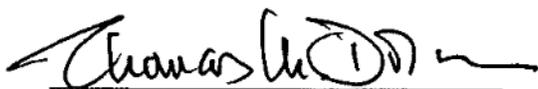
2. AEP-Kentucky is authorized, as part of its August 2002 semi-annual DSM filing, to include for recovery from ratepayers REAP costs limited to the amount of approximately \$75,000, net of estimated savings, budgeted for calendar year 2002, as adjusted to eliminate any amount for a maximizing incentive.

3. AEP-Kentucky shall calculate a separate DSM surcharge for any net REAP costs to be recovered from ratepayers as part of its semi-annual DSM filing in August 2002 and shall separately identify that DSM surcharge on customers bills.

Done at Frankfort, Kentucky, this 30<sup>th</sup> day of April, 2002.

By the Commission

ATTEST:

  
Executive Director