COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) AUTHORITY TO MODIFY CERTAIN EXISTING DEMAND-SIDE MANGEMENT PROGRAMS; (2) AUTHORITY TO IMPLEMENT NEW PROGRAMS; (3) AUTHORITY TO DISCONTINUE CERTAIN EXISTING DEMAND-SIDE PROGRAMS; (4) AUTHORITY TO RECOVER COSTS AND NET LOST REVENUES, AND TO RECEIVE INCENTIVES ASSOCIATED WITH THE IMPLEMENTATION OF THE PROGRAMS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	**CASE NO. 2015-00271**

BEVERLY MAY AND SIERRA CLUB'S COMMENTS REGARDING KENTUCKY POWER COMPANY'S DEMAND-SIDE MANAGEMENT/ENERGY EFFICIENCY APPLICATION

Beverly May and Sierra Club (collectively, "Sierra Club"), through undersigned counsel, hereby summit the following comments on Kentucky Power Company's ("KPC" or "the Company") demand-side management/energy efficiency ("DSM/EE") application in the above-captioned docket.[1] In this case, KPC requests Commission approval to implement several changes to its DSM/EE portfolio. Specifically, KPC seeks to modify five of its thirteen existing DSM/EE programs; implement six new DSM/EE programs; terminate six existing programs; and implement new and revised tariffs to recover the full costs associated with the Company's modified DSM portfolio. (KPC Appl. at 1).

[1] According to the Commission's September 25, 2015 order, intervenor testimony is due by December 23, 2015. Sierra Club has notified counsel for the Company and Commission Staff that it will present its position through written comments, rather than testimony. Sierra Club does not intend to request an evidentiary hearing in this case.

The Company's proposed 2016-2018 DSM/EE plan is driven by its recently-completed market potential assessment and DSM program plan studies, and reflects the next phase of KPC's commitment to increase its annual investment in cost-effective DSM/EE resources. The Company projects total DSM/EE expenditures of roughly $6 million in 2016, consistent with its DSM investment obligation set in Case No. 2012-00578, and the Commission should continue to monitor the Company's spending to ensure compliance. The Company's proposal will result in cost-effective energy savings in 2016-2018 and Sierra Club generally supports KPC offering these programs to its customers. However, Sierra Club believes that the Company's savings estimates remain low, and that KPC could achieve higher levels of cost-effective efficiency savings for the benefit of its customers and the utility system. Therefore, Sierra Club urges the Company to explore ways to deliver greater cost-effective savings to its customers. In particular, the Company should seek to strengthen the Residential Efficient Products program by adding measures or using upstream incentives for eligible appliances, and investigate offering demand response programs in the near time. Finally, the Company should offer savings opportunities to its industrial customers. As its 2015 market potential study demonstrates, there are significant untapped savings in the industrial sector.

1. The Company Projects Compliance with its DSM Investment Obligation in 2016, and the Commission Should Continue to Monitor KPC's DSM Expenditures.

Sierra Club strongly supports increased investments in energy efficiency to capture cost-effective savings for customers and the utility system. KPC projects that it will spend approximately $6,015,335 on its programs in 2016. (Appl. at 21; Appl. Ex. 5, Proposed 2016 Kentucky Power DSM/EE Budget).[2] This represents a roughly twenty percent increase in program expenses as compared to its original projected budget for 2015, which was $5,016,191.

[2] This amount does not include the funding that KPC will provide for the 2014 School Energy Manager Program.

(KPC Response to Commission Staff's First Set of Data Requests, Request No. 55, Case No. 2014-00271).[3]

KPC proposes to increase its program budgets to meet its DSM/EE investment obligations pursuant to the Commission's order in the Mitchell transfer proceeding, Case No. 2012-00578. In that case, KPC, Sierra Club and Kentucky Industrial Utility Customers, Inc. entered into a Stipulation and Settlement Agreement ("Stipulation"), which provides, among other things, that:

> [KPC] agrees to increase its aggregate annual spending on cost-effective DSM and energy efficiency measures through Commission-approved DSM programs to $4 million in 2014; $5 million in 2015; and $6 million in 2016, 2017, and 2018. The Company also will seek to maintain a minimum spending level of $6 million for Commission-approved cost-effective DSM and energy efficiency measures in years after 2018.

(Oct. 7, 2013 Order, Appendix A, ¶ 12. The Commission approved the Stipulation subject to several modifications, including the requirement that the Company seek prior Commission approval should it want to spend less than $6 million on DSM or energy efficiency programs after 2018. (*Id.* at Appendix B, ¶ 4). The Company accepted the modifications on October 14, 2013. KPC's proposed 2016 budget of roughly $6 million is consistent with its 2016 requirement.

Sierra Club supports KPC's proposal to increase its 2016 DSM program budget to comply with the terms of the Stipulation and the Commission's October 7, 2013 Order in Case No. 2012-00578. However, in light of the 2014 expenditure shortfall and 2015 year-to-date ("YTD") spending estimates, the Commission should continue to closely monitor the Company's DSM expenditures to ensure that KPC meets its DSM investment obligations and its customers continue to benefit from cost-effective energy savings.

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[3] Responses to data requests discussed herein are included as Attachment 1 to these comments.

The Company failed to meet its $4 million requirement in 2014. DSM programs costs totaled $3,736,549 for that year. (Appl. Ex. 2 at 2). KPC accounted for the $263,451 shortfall by adding it to its $5 million spending obligation in 2015. (*See* KPC Supplemental Response to Staff's Second Set of Data Requests, Request No. 5, Case No. 2014-00271 (Jan. 16, 2015)). As a result, the Company's projected budget for 2015 total DSM costs is $5,288,083. (KPC Response to Sierra Club's Initial Set of Data Requests, Request No. 3). As of November 30, 2015, the Company's YTD DSM expenditures totaled $4,654,796. (KPC's Monthly DSM Report, Case No. 2014-00271 (filed Dec. 22, 2015)). If KPC's monthly spending in December equals its November spending ($483,124), the Company will fall short of its revised 2015 DSM expenditure obligation.[4]

In the last DSM case, Sierra Club requested that the Commission direct the Company to file DSM expenditure updates for the final three months of 2014. (Sierra Club Comments, p. 5, Case No. 2014-00271 (Nov. 24, 2015)). The Commission agreed and required the Company to file monthly reports on the level of direct program expenditures through 2015, including an explanation of how the Company plans its spending level obligation as provided in the Stipulation. (Feb. 13, 2015 Order, pp. 13, 16, Case No. 2014-00271). Sierra Club respectfully requests that the Commission continue to require KPC to file monthly DSM expenditure reports. Monthly filings would enable Commission Staff and Sierra Club to determine whether the Company has met its DSM investment obligation, as required by the Stipulation in Case No. 2012-00578. If the Company fails to meet its 2015 requirement, including the roll over from 2014, the Commission should direct the Company to add any shortfall to its 2016 budget.

[4] Sierra Club appreciates the Company's update regarding its anticipated expenditure shortfall for the Appliance Recycling Program due to the temporary program suspension and its commitment to keep the Commission, Sierra Club, and the DSM Collaborative informed of future program developments. (*See* KPC Letter to Commission, p. 3, Case No. 2015-00271 (Dec. 14, 2015)).

2. The Plan's Projected Savings Remain Low and The Company Should Continue to Explore Ways to Increase Savings Levels.

Sierra Club supports the expansion of cost-effective energy efficiency programs to achieve greater levels of savings. In this case, the Company proposes several program changes, including modifying, terminating and adding programs. The result is projected net energy savings of 26,251 megawatt-hours ("MWh") in 2016, 28,761 MWh in 2017, and 28,997 MWh in 2018. (KPC Response to Sierra Club's Initial Set of Data Requests, Request No. 11, Revised Attachment 1). Overall, savings remain low and projected savings growth during the three-year program period is relatively small (and virtually non-existent between years 2016 and 2017). As a result, the Company should continue to evaluate its market potential and look for further opportunities to deliver savings to its customers.

Generally, Sierra Club does not object to the Company's proposed changes, including terminating several programs where the underlying services provided are integrated into a more comprehensive program. Services provided through the current Modified Energy Fitness, High Efficiency Heat Pump and Mobile Home High Efficiency Heat Pump programs, for example, will be incorporated into the new Whole House Efficiency Program. (Appl. at 7). However, Sierra Club is concerned about the proposed modification to the Residential Efficient Products program, which has been one of the largest sources of energy savings in the Company's DSM/EE portfolio. The Company proposes to remove Energy Star® refrigerators and freezers, and heat pump water heaters because it concludes they are no longer cost-effective based on federal appliance standards and KPC's avoided costs. (Appl. at 8; Appl. Exhibit 6 at p. 41). As a result of this change, energy savings are projected to drop by roughly fifty percent, from 17,091 MWh in 2015 to 9,457 MWh in 2016. (KPC Response to Sierra Club's Initial Set of Data

Requests, Request No. 19, Attachment 1).[5] The Company should consider ways to restore these lost savings, such as adding measures or using upstream incentives for eligible appliances in addition to lighting.

Additionally, Sierra Club is concerned about the lack of any demand response ("DR") program in the plan. The Company does not propose any demand response ("DR") programs, concluding that there are no cost effective DR options until 2020. (Direct Test. of John A Rogness III, p. 13:3-4). DR programs provide significant customer and system benefits and waiting until 2020 to implement these programs will leave KPC's system less efficient, with customers paying for expensive peak power that could potentially be avoided. The Company should continue to investigate DR programs and other grid modernization initiatives to take advantage of this increasingly-valuable clean energy resource option.

3. The Company Should Offer DSM/EE Programs to its Industrial Customers.

KPC does not currently offer, nor does it propose to offer any programs for industrial customers. Industrial customers account for more than forty percent of energy consumption in KPC's service territory. In 2013, the industrial sector consumed more than 220% (2970 gigawatt hours ("GWh")) of the energy consumed by the commercial sector (1337 GWh) sector and roughly 131% of the energy consumed by residential sector (2273 GWh). (Rogness Direct Test., p. 8:5-7, 13-14; p. 9:7-9). The Company's market potential study, as well as experience in other states, indicates that the sector can achieve substantial cost-effective energy savings. The Company's study found that "[t]he industrial sector has significant untapped savings potential" and estimated achievable industrial potential (in the mid scenario) of nearly 50,000 MWh in 2016. (AEG Market Potential Assessment, Executive Summary at pp. 3, 21, filed in Case No.

[5] These estimates reflect gross participant savings at the meter.

2014-00271). The study further noted that "some of the most efficient [industrial] measures could be installed and are already cost effective." (*Id.* at Executive Summary, p. 21). The dearth of industrial programs is a continued shortcoming in the Company's DSM/EE portfolio.

The potential study concluded that the industrial sector has significant untapped savings potential, specifically with regards to applying variable speed drives to motor end uses, which is the largest end use category for industrial customers. (*Id.* at 3; Rogness Direct Test., p. 9:7-9). In response to Staff's data request asking the Company to explain why it did not propose an industrial DSM program involving motor end uses, and how it intends to address the potential study's finding in the future, the Company stated that industrial customers' participation in the Company's DSM program is voluntary and all customers have opted out. (KPC Response to Staff's Initial Set of Data Requests, Request Nos. 1). The Company further explained that its Commercial Prescriptive Custom and New Construction programs include incentive measures for projects with variable speed drive applications and that such programs are "readily adaptable for industrial customers." (*Id.*). However, the Company has not proposed to adapt these programs to allow for industrial customer participation in its proposed plan.

The Company explained that the New Construction program is not available to industrial customers because the program's participation and cost estimates were selected at the Mid Scenario level, which "reflects the fact that industrial customers have chosen to opt out of participating in the Company's DSM programs." (KPC Response to Sierra Club's Initial Set of Data Requests, Request No. 20). The Company further stated that industrial customers have not expressed a sustained interest in the programs and appear to have chosen to pursue their own DSM/EE needs under the aegis of the opt out statute. (KPC Response to Sierra Club's

Supplemental Set of Data Requests, Request Nos. 4, 5; *see also* KPC's Response to Sierra Club's Initial Set of Data Requests, Request No. 21).

While it is true that certain qualifying industrial customers can opt out of DSM programs and pursue their own DSM/EE measures, this does not mean that the industrial class should not be provided with any energy savings opportunities through the Company's DSM/EE plan. As the Commission explained in a DSM order last year, the opt-out provision in KRS 278.285(3) "presumes the existence of a program out of which to opt." (Nov. 14, 2014 Order, p. 30, Case No. 2014-0003**)**. Specially, "[o]nce a program is in place, KRS 278.285(3) employs a two-part analysis to enable an individual industrial customer to opt out. First, the industrial customer must be an energy-intensive customer, and second, the energy-intensive customer must have adopted cost-effective energy-efficiency measures." *Id.* Thus, the opt-out provision in KRS 278.285(3) does not foreclose industrial efficiency programs; to the contrary, it "presumes [their] existence." (*Id*.). As the potential study finds, there are significant energy savings opportunities for the industrial sector, and the Company has readily-adaptable programs to provide at least some of these opportunities of its customers.

Despite the potential study's findings, "[t]here are no DSM programs available to industrial customers in the Company's proposed program plan." (KPC Response to Sierra Club's Initial Set of Data Requests, Request No. 21). The Company described its plan with respect to industrial DSM programs in discovery. (*See* KPC's Response to Staff's Initial Set of Data Requests, Request No. 30). The Company noted that its industrial programs were discontinued in 1998 due to lack of participation and asserted a continued lack of interest due to the opt out provision (*Id*.). However, the Company also indicated that it anticipates examining potential industrial programs, including its existing commercial programs that are "readily adaptable for industrial customers." (KPC's Response to Staff's Initial Set of Data Requests, Request No. 30). Sierra Club supports the Company's examination of potential industrial programs, including adapting existing commercial programs.

As discussed previously, the existence of the statutory opt out provision does not foreclose industrial programs. (November 14, 2014 Order, p. 30, Case. No. 2014-00003) ("[T]here is no justification for a categorical opt-out"). KPC can offer its industrial customers energy efficiency savings opportunities under the current DSM framework and the significant untapped savings potential for this important class of customers should not be ignored.

In sum, Sierra Club urges the Company to develop an industrial program or modify an existing commercial program so that industrial customers, especially smaller industrial customers, can participate and save energy. As an initial step, KPC should look to its commercial programs that are "readily adaptable for industrial customers," (KPC's Response to Staff's Initial Set of Data Requests, Request No. 30), with a goal of including industrial offerings in its next DSM/EE application, if not sooner.

4. Conclusion.

Sierra Club supports KPC's increased investment in DSM, consistent with the Stipulation in Case No. 2012-00578. In light of past DSM expenditure levels, Sierra Club requests that the Commission direct the Company to continue to file monthly DSM program expenditure reports in 2016. Additionally, Sierra Club urges the Company to look for opportunities to increase its savings. KPC should consider additional ways to increase the projected savings from its Residential Efficient Products program, including offering upstream incentives for eligible appliances, and further investigate DR opportunities. The Company should also work to develop industrial program offerings, such as a new program or a modified version of an existing commercial program to include industrial customers. As the potential study found, the industrial sector has significant untapped savings potential. The Company should work to capture these savings for the benefit of customers and the utility system.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that true copies of Beverly May and Sierra Club's Comments Regarding Kentucky Power Company's Demand Side-Management/Energy Efficiency Application has been served via U.S. mail and/or electronic mail on December 23, 2015 to the following:

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