COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

Electronic Investigation Of The Reasonableness Of The Demand Side Management Programs And Rates Of Kentucky Power Company	)))	Case No. 2017-00097

KENTUCKY POWER COMPANY'S STATUS REPORT, MOTION FOR LEAVE TO MAKE THE COMPANY'S NOVEMBER 15, 2017 D.S.M. FILING IN THIS CASE, AND MOTION FOR LEAVE TO FILE PROPOSED TARIFFS FOLLOWING APPROVAL OF 2018 D.S.M. FACTORS

Kentucky Power Company supplies the following information to the Public Service Commission of Kentucky to apprise the Commission of the status of the Company's Commission-approved demand-side management programs. Kentucky Power also provides this status report to update the Commission and the parties on the status of the actions taken by the Company in response to the Commission's November 2, 2017 Order ("Commission Order") with respect to program spending. The status report additionally describes some impacts of the Company's post-November 2, 2017 actions for the Commission's consideration as the Commission deliberates on the future of D.S.M. programs in Kentucky Power's territory.

Kentucky Power also moves the Commission for leave, to the extent required, to make its November 15, 2017 filing in this case in lieu of initiating an independent action by filing an application. Finally, Kentucky Power moves the Commission for leave to file its proposed D.S.M. tariff Sheet 22-1 and 22-2 ten days following the entry of a final order in this proceeding. Kentucky Power states:

The Commission Order

1. The Commission entered an order in this proceeding on November 2, 2017[1] in response to Kentucky Power's motion for leave to deviate from certain filing requirements with respect to its annual Demand-Side Management application. The Commission Order also addressed the Company's subsequent status report, which the Commission treated as a motion, Importantly, the Commission also clarified a prior Commission Order on the expected scope of the Company's actions in administering the programs in 2017.

2. The Commission Order granted the Company's motion for leave to deviate from certain filing requirements. The Commission directed Kentucky Power to file on or before November 15, 2017 its D.S.M. program evaluations, its revised D.S.M. tariffs, and its proposed D.S.M. factors.[2]

3. The Commission Order also granted the Company's request to authorize the Company to enter into a contract with the Kentucky School Boards Association authorizing the Kentucky School Boards Association to expend the remaining balance of $87,720 in School Energy Manager Program funds that were unexpended when the existing contract expired.[3]

4. Finally, the Commission Order provided:

> Consequently, once existing third-party residential DSM contracts expire, Kentucky Power is relieved of any obligation to renew, extend, or replace those contracts, or to enter into other DSM contracts, or to maintain or develop internal programs, in an effort to achieve or maintain an annual DSM spending level of $6 million.[4]

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[1] Order, *In The Matter Of: Electronic Investigation Of The Reasonableness Of The Demand Side Management Programs And Rates Of Kentucky Power Company*, Case No, 2017-00097 at 3 (Ky. P.S.C. November 2, 2017).

[2] *Id.* at 5.

[3] *Id.*

[4] *Id.*

5. On November 3, 2017, Kentucky Power filed its "Notice to Commission of Its Actions in Compliance With The Commission's November 2, 2017 Order" ("Notice"). Kentucky Power indicated in its Notice that it was suspending effective November 3, 2017 all new activity in connection with its D.S.M. programs. The Notice also indicated that the Company would continue to evaluate its level of 2017 to-date demand-side management spending, incentives, and lost revenues.

Further Status Report

6. Kentucky Power provides the following update of 2017 D.S.M. program costs and obligations based upon that continuing evaluation:

(a) 2017 D.S.M. program costs through September 30, 2017 totaled $4,566,899.[5] Had Kentucky Power continued the programs and the evaluation of the 2017 programs through December 31, 2017, the Company estimates, on a preliminary basis, the 2017 D.S.M. program costs would have totaled $6,122,111.[6]

(b) With the suspension of program offerings in response to the November 2, 2017 clarification, Kentucky Power estimates, on a preliminary basis, that 2017 D.S.M. spending will total $5,838,333 as of December 31, 2017.[7]

7. As of September 2017 Kentucky Power had recovered its earlier under-recovery in connection with its residential programs through its current residential D.S.M. factor.[8] This

[5] Kentucky Power also paid incentives and experienced lost residential revenues totaling $2,968,600 during the nine-month period ended September 30, 2017. Program costs, incentives, and lost revenues for the period ended September 30, 2017 totaled $7,535,499.

[6] Kentucky Power estimates that 2017 incentives and lost revenues would have totaled an additional $3,950,794. Absent the November 3, 2107 suspension of new program activity, the Company estimates total 2017 program costs, incentives, and lost revenues for the period ended December 31, 2017 would have been $9,789,127.

[7] Kentucky Power estimates that 2017 incentives and lost revenues would have totaled an additional $3,066,784. With the November 3, 2107 suspension of new program activity, the total 2017 program costs, incentives, and lost revenues for the period ended December 31, 2017 are estimated to be $8,905,117.

[8] The commercial factor reflected a prior estimated under-recovery of $2,239,445 for the commercial programs.

under-recovery produced much of the increase in the Company's residential D.S.M factor identified by the Commission in its Order establishing this investigation.[9] The unrecovered D.S.M. program charges used to calculate the current D.S.M. residential factor (including the forecast for the second half of 2016) totaled $6,818,082.

8. The Company's existing third-party D.S.M. agreements and their expirations dates are:

<u>Vendor</u>	<u>Program</u>	<u>Contract Expiration</u>	<u>Proposed Termination Date With Commission-Ordered Wind-Down</u>
Opower, Inc.	Residential Home Performance	June 30, 2018	December 31, 2017
ARCA Recycling, Inc.	Appliance Recycling	December 31, 2018	December 31, 2017
DNV GL Energy Services USA Inc.	New Construction; Commercial Incentive Prescriptive Custom; Retro-Commissioning; New Manufactured Homes	December 31, 2018	July 30, 2018[10]
Honeywell Utility Solutions	Whole House Efficiency	December 31, 2018	February 28, 2018[11]
Lime Energy Services Co.	Express Install	December 31, 2018	December 31, 2017
CLEAResult Consulting, Inc.	Residential Efficient Products and Energy Education for Students	December 31, 2017	December 31, 2017

Because of the unanticipated popularity of the commercial programs the actual commercial program under-recovery is $4,946,422 as of September 30, 2017.

[9] Order, *In The Matter Of: Electronic Investigation Of The Reasonableness Of The Demand Side Management Programs And Rates Of Kentucky Power Company*, Case No, 2017-00097 at 1-2 (Ky. P.S.C. February 23, 2017) (noting increase in average residential customer's D.S.M. charge using 1,324 kWh between March 11, 2016 and 2017 from $4.18 to $10.61).

[10] Assumes continuation of two D.S.M. programs to complete 218 pending customer projects.

[11] Assumes continuation of Whole House Efficiency program to complete 18 pending customer rebates.

Vendor	Program	Contract Expiration	Proposed Termination Date With Commission-Ordered Wind-Down
National Energy Education Development	Energy Education for Students	December 31, 2017	December 31, 2017
Applied Energy Group, Inc. (AEG)	D.S.M. Evaluation	March 31, 2019	December 31, 2017

Impact of the Commission Order on Existing Programs

9. The Company also provides this update to ensure the Commission and the parties are aware of the impact of the Company's suspension of all new D.S.M. program activity in its effort to comply with the guidance provided by the Commission Order. On November 3, 2017, the day following the issuance of the Commission Order, Kentucky Power notified the Commission that it was suspending all new D.S.M. program activity. The suspension was in response to the further guidance provided in the Commission Order, and in an effort to decrease the financial impact of the programs.

10. Multiple D.S.M. projects and activities were in progress at the time of the Company's November 3, 2017 suspension of new program activity. In addition, Kentucky Power must take steps to close out the 2017 D.S.M. program. Finally, pending a decision by the Commission in this proceeding concerning the future of Kentucky Power's D.S.M programs, Kentucky Power must take steps to ensure vendors are available for 2018 if needed.

11. Kentucky Power's D.S.M. programs involve eight vendors. Those vendors locally employ 14 individuals to provide program services. The inability to sign new contracts for 2018, and the need to suspend new offerings under the program in 2017, could result in the loss of employment for those individuals.

12. Kentucky Power believes it is important to notify its contractors no later than November 30, 2017 if the existing programs will not continue in 2018. Many of the Company's contractors indicate they must provide their employees with timely advance notice to avoid incurring additional employment costs in 2018 in connection with Kentucky Power's existing D.S.M. programs. Kentucky Power also has contracts that have terms extending into 2018. Finally, the Company needs to know if it should be exploring early D.S.M. program contract terminations to minimize operational costs such as travel, information technology, rent, storage, telecommunications, and call center support.

13. Kentucky Power provides the following as part of its efforts to inform the Commission as promptly as possible of the status of its D.S.M. programs and the effect of its November 3, 2017 suspension of all new program activity in response to the guidance provided in the Commission Order. The situation nevertheless remains fluid and these estimates may change:

(a) Kentucky Power has been informed by its contractors that 14 of their local employees may be affected on or before December 31, 2017 as a result of the November 3, 2017 suspension of all new D.S.M. program activity.

(b) Two hundred and eighteen projects for Commercial Incentive Prescriptive Custom program and the New Construction program are pending completion. It is the Company's understanding these are projects that are in progress or for which the customers have made commitments. The program incentives applicable to these 218 projects are estimated to total $1,129,914.

(c) Sixty two residential home weatherization audits scheduled for November 2017 have been cancelled.

(d) Twelve appliance pick-ups scheduled for November 2017 have been cancelled.

(e) Point of purchase marketing materials are being removed from 64 retail locations and in-store discounts for energy efficient lighting are being eliminated.

(f) Fifty five retail stores were participating in the Efficient Products program's in-store discount promotions. Nine retail stores were participating in the efficient appliance retail rebate program.

(g) Seventy five businesses in the Company's service territory were participating the Whole House Efficiency program.

(h) The Company estimates that in the 2016 program year approximately 17,500 low income customers participated in at least one Kentucky Power D.S.M. residential program. These include an estimated 1,240 customers who received installed energy conservation measures and home testing services through the Whole House Efficiency program.

(i) Three Community Action agency directors have expressed concerns about the Company's suspension of all new program activity.

(j) The Company also is aware of one customer complaint filed with the Commission related to the cancellation of a home audit.

14. Kentucky Power also anticipates customers will be confused as a result of the uncertain status of the Company's D.S.M programs.

15. Kentucky Power also suspended measurement and evaluation services for 2017 in an effort to adhere to the Commission's clarification. The measurement and evaluation services are used to assist Kentucky Power in improving the Company's D.S.M. programs, as well as verifying the cost effectiveness and impact savings of D.S.M. programs. Kentucky Power

suspended the services to lower the cost impact in the absence of clarity on the future of the programs. Evaluation services that were suspended also included evaluation of Kentucky Power D.S.M. programs in connection with the full report currently scheduled for the Company's 2018 D.S.M. filing.

Basis For Making November 15, 2017 Filing In This Proceeding

16. Kentucky Power annually files an application, along with status report, Schedule C, program tariff revisions, and an evaluation, if applicable, proposing new D.S.M. factors in either August or November. The application typically is established as an independent proceeding.

17. The Commission in this proceeding currently is "evaluat[ing] whether continuing the current programs and level of spending are reasonable and in the best interest of customers…."[12] Both the subject matter and the issues presented in this investigation substantially overlap the subject matter and issues that would be examined in any new proceeding established upon the filing of an independent application by the Company. Filing the information that would be filed in an independent application in a single proceeding, as the Company proposes, also mitigates the burden on the Commission of parallel overlapping proceedings, while avoiding the risk of inadvertently inconsistent outcomes. In addition, there are no persons or entities who have been granted leave to intervene in the Company's D.S.M. proceedings from 2014, when the Company began increasing its level of D.S.M. spending in conformity with the Mitchell Transfer settlement agreement, to date, who are not parties to this proceeding. Finally, some discovery has been taken, and a procedural schedule has been

[12] Order, *In The Matter Of: Electronic Investigation Of The Reasonableness Of The Demand Side Management Programs And Rates Of Kentucky Power Company*, Case No, 2017-00097 at 6 (Ky. P.S.C. February 23, 2017).

established in this case, thereby enabling the prompt resolution of the issues associated with the 2018 D.S.M. factors.

November 15, 2017 Filings

18. At the heart of this proceeding are three issues that are fundamental to the Company's existing D.S.M. program: (a) whether the Company will be authorized in the future to offer D.S.M. programs and recover the amounts associated therewith through its D.S.M. charge; (b) if the Company is authorized to continue offering D.S.M. programs to its customers at the level of authorized funding to be recovered through the Company's D.S.M. charge; and (c) the identity of the programs that will be offered if the level of funding is reduced below current levels. Until these issues are resolved in this proceeding, the Company cannot make a definitive determination regarding its 2018 D.S.M. program.

19. Kentucky Power shares the Commission's concerns concerning the loss of load, customers, and the economic prospects facing eastern Kentucky absent immediate and focused actions.[13] To that end, the Company filed its application with the Commission to establish its "Coal Plus" program on the same day the Commission initiated this investigation. The Commission promptly approved the program and it has borne fruit. Kentucky Power also has been at the forefront of economic development efforts in its service territory through its "Appalachian Sky" and other initiatives. These activities, in conjunction with the efforts of state and local officials, have led to the announcements by Braidy Industries (locating in Boyd and Greenup counties), RCL Chemical (locating in Floyd County), SilverLiner (locating in Pike County), Steel Ventures of West Virginia (locating in Greenup County), Thoroughbred Aviation (locating Martin County), Logan Corp. (locating in Magoffin County), and Wrightway Mix

[13] *Id.* at 3-4.

Solutions (locating in Greenup County) that foreshadow a brighter economic future for the Company's service territory.

20. Kentucky Power also shares the concerns identified by the Commission in its February 23, 2017 Order establishing this investigation about the impact of the current D.S.M. factor on many residential customers in light of their "already bleak economic situation."[14] Under Alternative A, that impact can be reduced by 89% while maintaining the current level of D.S.M. activity.

21. Kentucky Power is committed to offering robust and complete D.S.M. programs in line with its existing offerings. But time is of the essence to ensure such programs remain effective, and, that also necessary actions can be taken. In addition, notwithstanding the current suspension, the D.S.M. programs are incurring administrative cost to retain minimal program services while not providing the cost effective customer benefits and services inherent in the programs. To aid the Commission's resolution of these three fundamental issues, Kentucky Power is presenting as its November 15, 2017 filing two alternatives regarding the Company's 2018 D.S.M. program.

(a) Continuing the D.S.M. Program as Planned.

22. Kentucky Power's preference is to continue the funding of all existing programs at current levels. Kentucky Power estimates that doing so will require the recovery of $1,951,307 in residential program costs, incentives, and lost revenues in 2018 through the Company's D.S.M. factor. ***Importantly***, although program costs, incentives, and lost revenues will remain essentially unchanged from current program levels under this proposal, the Residential D.S.M. factor will decrease by 88% from $0.008013/kWh to $0.000969/kWh.

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[14] *Id.* at 4.

This reduction results from the fact that the prior under-recovery for the residential programs was recovered by September 2017.

Regardless of the Commission's resolution of the issues in this case, the factor must be reduced because it is now collecting more than the expected costs. Unless changed, the Company's current Residential D.S.M. factor will result in a continuing over-recovery in 2018 even if current program levels are maintained.

23. The commercial D.S.M. factor will increase modestly if the current commercial programs and spending levels are maintained in 2018. The Company estimates the Commercial D.S.M. factor will increase by 3% from \$0.004206/kWh to \$0.004320/kWh. This increase results from the fact that the prior under-recovery increased because of the unanticipated popularity of the Company's commercial D.S.M. programs.

(b) A Commission-Ordered Winding Down of the D.S.M. Program.

24. This is not Kentucky Power's preference. Nor does the Company believe it is in the best interest of its customers. The following reflects an orderly wind-down of Kentucky Power's existing D.S.M. programs beginning December 2017. This would include terminating existing third-party contractor agreements and program evaluation services.

25. It is important to note that even if program services are ordered to be wound down beginning December 2017, there is a "tail" of past spending, continuing spending that cannot be suspended, incentives, and lost revenues that would still need to be reconciled and collected in 2018 through the D.S.M. charge.

26. Under a Commission-ordered wind down plan, the Residential D.S.M. factor is estimated to decrease by 118% from \$0.008013/kWh to a *credit* of -\$0.001403/kWh. The Company estimates the Commercial D.S.M. factor will decrease by 32% from \$0.004206/kWh

to $0.002867/kWh in connection with a Commission-ordered wind down. Part of the costs of winding down the program would include the payment of incentives lost as a result of the suspension by customers who were preparing to make or already making capital improvements in 2017. If the program is wound down it is appropriate to ensure those customers who acted in reliance on the Company's D.S.M. programs are treated appropriately. These incentives are estimated to total approximately $1,129,914 and are included in the commercial wind down factor.

27. In sum, the 2017 and estimated 2018 D.S.M. residential factors and average monthly charge are:

	Residential D.S.M. Factor	**Monthly D.S.M. Charge (Credit) Based On 1,324 kWh Monthly Usage**
2017 factor on bills until changed	$0.008013/kWh	$10.61
2018 factor if the Company were to continue its existing programs	$0.000969/kWh	$1.28
2018 factor if the Company were to wind-down its programs	-$0.001403/kWh	($1.86)

28. Again, Kentucky Power does not support the winding down of its existing D.S.M. programs; the Company is providing this information to show the Commission the range of the options and their impact. The Company stands by the commitment it made in Case No. 2012-00578. With the elimination of the past under-recoveries, the Company can continue to provide important D.S.M. services at a reasonable cost. Importantly, continuing the existing programs in 2018 appears to accomplish the Commission's goal of lowering the residential customer impact.

29. The factors above are based upon the information available to the Company at this time. The Company nevertheless needs additional time to reconcile the factors for unknown

costs associated with unwinding existing contracts and commitments. Because of the limited time between the Commission Order and November 15, 2017, and the need for additional information from vendors, the Company has been unable to finalize the expected costs. The Company will amend this filing if necessary.

30. The Company is filing the following information in connection with these two alternatives:

(a) Process Market Evaluations;

(b) Redesigned Schedule C And Calculations for Alternative A; and

(c) Redesigned Schedule C And Calculations for Alternative B.

<u>Motion For Leave To File Proposed Tariff Sheets Following The Commission's Order In This Proceeding</u>

31. The Commission's Order directs the Company to file on or before November 15, 2017 tariffs for its proposed 2018 D.S.M. program.

32. The three fundamental issues before the Commission in this proceeding must be resolved before the Company can identify a recommendation for a 2018 D.S.M. program or prepare and file tariffs to implement such a program. In addition, to the extent the Commission ultimately elects to discontinue or limit some of the existing programs the associated tariffs will have to be withdrawn or amended.

33. Kentucky Power anticipates it can file proposed rate-related tariffs (Sheet 22-1 and Sheet 22-2), ten days after a final Commission Order in this proceeding establishing new factors.[15] The Company further requests that the updated D.S.M. factors become effective in

[15] Depending on the outcome of this proceeding, the Company may be required to file amended program tariff sheets. Kentucky Power requests 30 days after a final order in this proceeding to file any required program tariff sheets.

January 2018 simultaneously with the rates to be established in the Company's pending rate case.

Wherefore, Kentucky Power Company respectfully requests the Commission enter an Order:

(a) Authorizing Kentucky Power to make its November 15, 2017 D.S.M. filing in this proceeding;

(b) Granting leave to file its proposed tariffs ten days after a final order in this case resolving the investigation and approving its 2018 D.S.M. spending levels;

(c) Grant Kentucky Power authority to implement the updated D.S.M. factors in January 2018 simultaneously with the effective date of the rates to be established in the pending rate case; and

(d) Granting such other relief to which Kentucky Power may appear entitled.

Dated this the 15th day of November, 2017.

Respectfully submitted,

Mark R. Overstreet by Rcm

Mark R. Overstreet
Katie M. Glass
STITES & HARBISON PLLC
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634
Telephone: (502) 223-3477
Facsimile: (502) 223-4387
moverstreet@stites.com
kglass@stites.com

Kenneth J. Gish, Jr.
STITES & HARBISON PLLC
250 West Main Street, Suite 2300
Lexington, Kentucky 40507
Telephone: (859) 226-2300
Facsimile: (859) 253-9144
kgish@stites.com

COUNSEL FOR:
KENTUCKY POWER COMPANY