COMMONWEALTH OF KENTUCKY
BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DUKE ENERGY KENTUCKY, INC. TO AMEND ITS DEMAND SIDE MANAGEMENT PROGRAMS	))))	Case No. 2017-00324

APPLICATION OF DUKE ENERGY KENTUCKY, INC. TO AMEND ITS DEMAND SIDE MANAGEMENT PROGRAMS

Comes now Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company), pursuant to KRS 278.285, and other applicable law, and does hereby request the Commission to approve an amendment of the Demand Side Management (DSM) programs as Ordered by this Commission.[1] In support of its Application, Duke Energy Kentucky respectfully states as follows:

Introduction

1. Pursuant to 807 KAR 5:001, Section 14(2), Duke Energy Kentucky is a Kentucky corporation that was originally incorporated on March 20, 1901, is in good standing and, as a public utility as that term is defined in KRS 278.010(3), is subject to the Commission's jurisdiction. Duke Energy Kentucky is engaged in the business of furnishing natural gas and electric services to various municipalities and unincorporated areas in Boone, Bracken, Campbell, Gallatin, Grant, Kenton, and Pendleton Counties in the Commonwealth of Kentucky. A copy of its articles of incorporation is on file with the Commission in Case No. 2013-00097.

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[1] *In the Matter of the Application of Duke Energy Kentucky, Inc. for the Annual Cost Recovery Filing for Demand Side Management,* Case No. 2012-00495, (Order)(April 11, 2013).

2. Duke Energy Kentucky's business address is 139 East Fourth Street, Cincinnati, Ohio 45202. The Company's local office in Kentucky is Duke Energy Envision Center, 4580 Olympic Boulevard, Erlanger, Kentucky 41018. Duke Energy Kentucky's email address is KYfilings@duke-energy.com.

3. On November 15, 2012, Duke Energy Kentucky filed an application for the cost recovery of demand side management programs. The Company's application was docketed as Case No. 2012-00495. On April 11, 2013, this Commission approved that Application and Ordered Duke Energy Kentucky to file an application requesting program expansion(s) and to include: (1) an Appendix A, setting forth the Cost Effectiveness Test Results of all DSM programs, (2) an Appendix B, setting forth the recovery of program costs, lost revenues, and shared savings that are used in determining the true-up of proposed DSM factors; and (3) a signed and dated proposed Rider DSMR, Demand Side Management rate, for both electric and natural gas customers, by August 15, annually[2].

Current DSM Programs

4. Duke Energy Kentucky has a long history of successful DSM implementation and has been a leader in the industry with respect to energy efficiency (EE) and peak demand reduction (DR) programs, having offered such programs since the mid-90's. Its existing portfolio of DSM programs was approved by the Commission in Case No. 2012-00085[3], by Order dated June 29, 2012. Additional programs have been added and removed[4] since the 2012 filing as approved in subsequent amendment filings. These programs are as follows:

- Program 1: Low Income Services Program

[2] *See Order, para. 4.*
[3] *In the Matter of the Application of Duke Energy Kentucky, Inc. for an Energy Efficiency Cost Recovery Mechanism and for Approval of Additional Programs for Inclusion in its Existing Portfolio,* Case No. 2012-00085.
[4] *Appliance Recycling Program was discontinued in 2016 as described in Case No. 2016-00289.*

- o Program 2: Residential Energy Assessments Program
- o Program 3: Energy Efficiency Education for Schools Program
- o Program 4: Residential Smart $aver® Efficient Residences Program
- o Program 5: Residential Smart $aver® Energy Efficient Products Program
- o Program 6: Smart $aver® Prescriptive Program
- o Program 7: Smart $aver® Custom Program
- o Program 8: Smart $aver® Energy Assessments Program
- o Program 9: Power Manager® Program
- o Program 10: PowerShare®
- o Program 11: Low Income Neighborhood
- o Program 12: My Home Energy Report
- o Program 13: Non-Residential Small Business Energy Saver Program
- o Program 14: Power Manager® for Apartments
- o Program 15: Power Manager® for Business
- o Program 16: Non-Residential Pay for Performance[5]

5. Consistent with the Commission's Order in Case No. 2015-00277 approving Duke Energy Kentucky request to continue its existing portfolio of programs, the Company is proposing the following programmatic changes in this year's annual amendment filings, which will then be reflected in the financial true-ups and forecasts to be included in the annual cost recovery filing for demand side management:

   a. This Application proposes to expand the scope of the Non-Residential Smart $aver® Custom Incentive Program by increasing the program budget to respond to market conditions and enhance the robustness of the Company's offerings.

[5] Marketed as Smart $aver® Performance

b. The Company is also filing a revised tariff: Rider DSM Demand Side Management Cost Recovery Rider. The tariff is being updated to more clearly and accurately reflect how lost revenues are collected from residential customers and to adjust the shared savings percentage to the current ten-percent incentive level.

6. The Residential Collaborative[6] and the Commercial and Industrial Collaborative[7] have reviewed the Company's proposed changes. With the exception of the Office of the Kentucky Attorney General and the Kentucky Energy and Environment Cabinet, which will indicate its opinion at a later date, the voting members of both the Residential Collaborative and the Commercial & Industrial Collaborative agreed with this Application.

7. Increased budget request:

Smart $aver® Custom:

The purpose of the Smart $aver® Custom program is to encourage the installation of high efficiency equipment in new and existing non-residential establishments. The program provides incentive payments to offset a portion of the higher cost of energy efficient equipment. Upon receiving a Custom Incentive application, Duke Energy Kentucky reviews the application and performs a technical evaluation as necessary to validate energy savings. Measures submitted by the customer are then modeled in DSMore™[8] to determine an acceptable incentive that ensures cost effectiveness to the program overall, given the energy savings, and improves a customer's

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[6] The Residential Collaborative members receiving the information: Kent Chandler, Rebecca Goodman and Heather Napier (Office of the Kentucky Attorney General), Jock Pitts and Nina Creech (People Working Cooperatively), Florence Tandy (Northern Kentucky Community Action Commission), Laura Pleiman (Boone County), Peter Nienaber (Northern Kentucky Legal Aid), Karen Reagor (Kentucky NEED Project), Lee Colten and Kenya Stump (Kentucky Energy and Environment Cabinet), Chris Jones (Greater Cincinnati Energy Alliance), and Tim Duff and Trisha Haemmerle (Duke Energy).

[7] The Commercial & Industrial Collaborative members in attendance were: Kent Chandler, Rebecca Goodman and Heather Napier (Office of the Kentucky Attorney General), Jock Pitts (People Working Cooperatively), Karen Reagor (Kentucky NEED Project), Lee Colten and Kenya Stump (Kentucky Energy and Environment Cabinet), Chris Baker (Kenton County Schools), and Tim Duff and Trisha Haemmerle (Duke Energy).

[8] DSMore™ is a financial analysis tool designed to evaluate the costs, benefits, and risks of DSM programs and measures.

payback to move them to invest in energy efficiency. Evaluation follow-up and review includes application review, site visits and/or onsite metering and verification of baseline energy consumption, customer interviews, and/or use of loggers/sub-meters.

In an effort to assist customers with completing the application process, Duke Energy Kentucky has launched a suite of simplified calculation tools. Such tools are intended to provide a relatively easy to use, but accurate means of estimating the savings of small, yet complex scopes of work.

During the previous fiscal year[9] ending June 2017, the Custom program achieved 144% of forecasted kWh impacts while spending only 14% over the forecasted budget. The Company originally forecasted to be over budget by 40%, however some of the projected projects have experienced delays and the associated incentives and program costs will need to shift into the current fiscal year[10] ending June 2018. So a significant portion or the requested modification in this filing is not an increase in expected spending in total, but rather simply a shifting of the fiscal year in which the expenditures occurred.

Historically the Duke Energy non-residential Custom Incentive program has paid an average of (29) applications per fiscal year over the past three (3) consecutive program fiscal years ('14-'15, '15-'16, '16-'17). During this same period, incentives paid and impacts claimed have averaged $258,000, and 3,616,000 Net kWh, respectively.

The current fiscal year ('17-'18) has already experienced a significant departure from the historical values above given the developing application pipeline in place. While the total number of applications thus far is on pace for the year (14 currently), total energy impacts for these projects are approximately three (3) times higher than historical values at nearly

[9] July 1, 2016 – June 30, 2017
[10] July 1, 2017 – June 30, 2018

10,000,000 Net kWh. As incentives paid are directly linked to energy impacts, they too are approximately three (3) times higher than historical values. The largest cost driver for the Custom Incentive program is the incentives paid to program participants. The Custom Incentive program requires participants to apply prior to committing to a project in order to influence their capital decisions. Additional funding is therefore needed to continue to make these customers whole on the energy efficiency investments they have made as a result of the Custom Incentives offered. The request includes the projects currently in progress, as well as, the possibility of additional projects. However, if Duke Energy Kentucky continues the level of success in 2017 with future project intake, additional funding may be required.

The original forecast for this timeframe was filed in Case No. 2016-00382. Including program costs, lost revenues and shared savings incentive the program was forecasted at $610,068. The request within this application is an increase from the $610,068 to $2,138,189. Details breaking out the program costs, lost revenues and shared savings incentive are available in Appendix B – page 2. The adjustment increases the non-residential rate from $0.002576 to $0.003208 per kWh.

8. Pursuant to KRS 278.285(1)(b) and the Commission's Order, Appendix A includes the Cost Effectiveness Test Results for the Non-Residential Smart $aver® Custom Incentive program.

9. Pursuant to KRS 278.285(1)(c) and the Commission's Order, Appendix B includes the calculations to recover program costs, lost revenues, and shared shavings, that are used in determining the true-up of proposed DSM factor(s).

10. A signed and dated proposed Rider DSMR, Sheet No. 78 Demand Side Management Rider, for both electric and natural gas customers, is attached hereto as Appendix C.

11. Pursuant to KRS 278.285(1)(c) and the Commission's Order, Appendices D - F includes program evaluations for the following programs: Energy Education in Schools Program for the National Energy Education Development (NEED) portion of the program, PowerShare®, and Non-Residential Small Business Energy Saver Program.

12. A signed and dated revised tariff: Rider DSM, Demand Side Management Cost Recovery Rider, Sheet No. 75 is attached hereto as Appendix G. The revised tariff describes the actual process used by the Company over many years to calculate rates in its DSM filings with the Commission. The changes are intended to simplify and update the Rider DSM language to describe the operation of the DSM program, which has changed over time in accordance with Commission authorization. The Company's Rider DSM language lagged behind in terms of the description of the program as it has evolved over the last several years. For example, the current Rider DSM tariff specifies an incentive amount of fifteen percent which is not the accurate incentive amount charged by the Company. The revised tariff specifies the actual ten percent incentive that is consistent with the filings that have been approved by the Commission and used by the Company in its calculations.

13. Finally, Duke Energy Kentucky respectfully requests that the Commission's Order in this proceeding approve any tariff modifications to be effective so to align with the Company's first billing cycle in the month following the Commission's Order. The Company is unable to implement tariff changes immediately upon approval and outside of a billing cycle under its current billing system. The Company needs at least five business days from the

issuance of an Order to implement rate changes and appropriately test the calculations.

WHEREFORE, Duke Energy Kentucky respectfully requests that the Commission grant the relief requested herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via ordinary mail, postage prepaid, this 15th day of August 2017:

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