

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:)
)
ELECTRONIC ANNUAL COST)
RECOVERY FILING FOR DEMAND) Case No. 2017-00427
SIDE MANAGEMENT BY)
DUKE ENERGY KENTUCKY, INC.)

**DUKE ENERGY KENTUCKY, INC.'S
REPLY BRIEF**

Comes now Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company), by counsel, pursuant to the Commission's May 23, 2018 Order setting a schedule for the filing of post-hearing briefs in the above-styled case and other applicable law, and for its reply brief in support of retaining its existing portfolio of Demand Side Management (DSM) programs and appropriate cost recovery related thereto and in reply to the Attorney General's brief in opposition, does hereby respectfully state as follows:

The Company's objective and purpose in developing its existing DSM portfolio has always been to offer a variety of programs, resources and services to help its customers voluntarily manage their demand for electric power, while harnessing and focusing the collective impact of such efforts in a manner that achieves long-term value for all customers. Duke Energy Kentucky is succeeding in these efforts as demonstrated by the favorable California Test scores its DSM portfolio achieves, both on a programmatic and portfolio level.¹ On this basis alone, the DSM portfolio should be allowed to continue as set forth in the Company's tariffs.

¹ See Timothy Duff Direct Testimony (Duff Direct), pp. 24-25, Attachment TJD-1; Hearing Video Record (HVR) 10:30:30; 11:23:57 (May 22, 2018). The Attorney General expresses a universal concern with the usefulness of various data sets used by utilities to measure the value of DSM programs, but offers no specific alternative analytical method. See Attorney General's Brief, p. 5. At the hearing in this matter, the Company addressed all the questions

Nothing in the Attorney General’s brief would support a contrary conclusion. For instance, the Attorney General concedes several key points: (1) Duke Energy Kentucky’s DSM portfolio directly benefits customers who chose to participate in the programs offered;² (2) the DSM portfolio is critical to assuring the Company can comply with its capacity obligations as an FRR entity in PJM Interconnection, LLC (“PJM”);³ and (3) all customers indirectly benefit from Duke Energy Kentucky’s ability to avoid large incremental capacity additions as a result of increasing participation in DSM programs.⁴ Significantly, the Attorney General’s brief also does not take issue with several other essential points made by Duke Energy Kentucky in its brief, including without limitation: (1) Duke Energy Kentucky uniquely is experiencing actual load growth;⁵ (2) the Company’s existing DSM portfolio satisfies each of the statutory elements of KRS 278.285;⁶ and (3) the Company’s proposed recovery of current DSM costs is reasonable.⁷ Each of these points of agreement or acquiescence persuasively demonstrates that the Company’s DSM portfolio is inherently reasonable, and indeed vital, to fulfilling the Company’s purpose and objective.

The few negative observations included in the Attorney General’s brief are not addressed to the question of *whether* Duke Energy Kentucky should continue its full suite of DSM programs, but rather *how* greater value may be unlocked moving forward. For instance, the Attorney General worries that small business and low income residential customers are excluded from participation in the Company’s DSM programs due either to insufficiency of funds necessary to make associated

from the Commission, Staff and Attorney General regarding its data and analytical process. Such questions are always best left to the Commission as evidentiary issues under the unique facts of each matter.

² See Attorney General’s Brief, p. 2.

³ See *id.*, p. 3.

⁴ See *id.*, pp. 3-4.

⁵ See Duke Energy Kentucky’s Brief, p. 34.

⁶ See *id.*, p. 37.

⁷ See *id.*, pp. 45-47.

capital investments or unaffordability.⁸ That argument overlooks the purpose and value of the Small Business Energy Saver Program and the Low Income Neighborhood Saver Program, however. Both programs are designed to remove the upfront capital barriers mentioned by the Attorney General and help these customers become more energy efficient. The Small Business Energy Saver Program pays up to 80% of all costs associated with an energy efficiency investment. Indeed, this level of support for private investment is much higher than other commercial programs. The Low Income Neighborhood Program offers similar unique benefits, including the fact that it is available to renters in addition to homeowners and targets entire neighborhoods. These programs highlight the extent to which Duke Energy Kentucky has designed programs to be available to virtually all its willing customers. Rather than being critical of these programs, the Attorney General should applaud them.

Furthermore, the Attorney General misperceives the significance of the relative amount of a customer's power bill that is associated with DSM programs.⁹ The increased percentage of an average bill that is attributable to DSM programs is the natural result of offering a greater and more diverse portfolio of DSM tariffs. However, the critical point that escapes mention in the Attorney General's brief is that the increase in DSM billing is not being driven by Duke Energy Kentucky, but rather by customers who are voluntarily choosing to participate in DSM programs and thereby becoming more energy efficient. Given the proven cost-effective nature of the DSM portfolio, every dollar spent on DSM is more than repaid by the avoided costs which are not passed onto customers. The Attorney General's argument is really an argument in favor of sustaining the

⁸ See Attorney General's Brief, pp. 2-3.

⁹ See Attorney General's Brief, p. 3.

Company's DSM portfolio. As more and more customers invest in energy efficiency, it would be imprudent to arbitrarily deny, delay or cap their participation in a program that creates value.

The Company and the Attorney General agree that any termination of the Company's Power Manager® and PowerShare® programs would create a dire consequence with regard to the Company's continued ability to satisfy its capacity obligations as an FRR entity in PJM.¹⁰ However, the Attorney General's implicit suggestion that the Company's other DSM programs do not fulfill an equally important function is alarming. The record clearly reflects that the effect of the balance of the Company's DSM portfolio is also valuable in shaving peaks and achieving efficiency,¹¹ as well as in enabling the Company to monetize any excess energy or capacity for the benefit of its customers.¹² The value of programs other than Power Manager® and PowerShare® are recognized in the Company's lower forecasted load in PJM and, correspondingly, in its lower FRR capacity and reserve requirements. It is simply not accurate to suggest or imply that only the Power Manager® and PowerShare® programs have value in the Company's involvement with PJM. The Attorney General's suggestion that DSM programs other than Power Manager® and PowerShare® should be discontinued is not valid.

Likewise, the Attorney General's concern that the Company's development of solar facilities and battery storage capability is somehow undercutting the value of the DSM programs is based upon two misperceptions.¹³ First, the solar and storage facilities are very small in scope

¹⁰ See AG's Brief, p. 3 ("For instance, the Attorney General believes the record reflects that Duke's customers cannot afford for the Commission to end Duke's Power Manager® and PowerShare® programs, as they are required in order to satisfy Duke's FRR capacity plan. The Attorney General understands non-compliance with that FRR plan carries with it steep penalties.") (emphasis in original).

¹¹ See John Verderame Direct Testimony (Verderame Direct), pp. 31-32

¹² See Duff Direct, p. 17.

¹³ See Attorney General's Brief, p. 5. The Attorney General relies upon a false comparison in citing to the Company's recent IRP filing. As explained in the testimony previously filed by the Company, the amount of capacity available in an IRP context is very different from the amount of capacity available under the PJM FRR construct. Moreover, the solar power contemplated being added by Duke Energy Kentucky is driven by the demand for a renewable source

and hardly qualify as the much larger intermediate and peaking combustion turbine and combined cycle baseload generating capacity that is delayed. Second, the Attorney General's concern ignores the reality that utilities must take a wholistic view of their enterprise and, in the case of the small solar and battery facilities, it is important to satisfy customer demand for renewable energy resources and to encourage the development of promising new technologies. Even with the addition of renewables and storage capacity, Duke Energy Kentucky is still recognizing the indirect value associated with avoiding large capacity additions. The addition of relatively modest solar and storage capacity additions in no way diminishes the value Duke Energy Kentucky's customers are recognizing from the delay of constructing larger, capital-intensive baseload, intermediate and peaking resources. To the contrary, Duke Energy Kentucky's DSM portfolio compliments the Company's efforts to offer renewable power options and encourage the development of leading-edge technologies.

The Attorney General also needlessly argues that Duke Energy Kentucky has somehow minimized or forgotten the energy conservation value of its investment in smart meters across its service territory.¹⁴ The value of smart meters in informing customers of their energy consumption habits is well-documented in other dockets, but it is irrelevant in this proceeding. The costs and benefits of smart meters are simply outside the scope of the Company's DSM portfolio and have no bearing on the question posed by the Commission in its February 14, 2018 Order regarding the cost-effectiveness of the existing DSM portfolio. Smart meters have the capability to play an

of power by customers who have unyielding sustainability commitments. The existing DSM portfolio has been developed to satisfy a *current* specific need for working in the PJM FRR construct. An IRP is developed to provide directional, but non-binding, planning for *future* system requirements. Viewed in this context, the AG's argument lacks persuasiveness.

¹⁴ See Attorney General's Brief, p. 4. The Attorney General also suggests that Duke failed to comply with a Commission Order requiring the filing of certain information deemed to be non-confidential. In fact, the Attorney General filed his brief before the information was required to be filed. The Company timely filed the information in question on July 13, 2018.

important role in engaging and encouraging customer energy efficiency and conservation, but the information they provide, just as the data provided by existing meters, is just one of the tools that must be leveraged to achieve the greatest impact at a reasonable cost.

Finally, the Attorney General's brief includes a paragraph which urges the Commission to reform the Low Income Services Program.¹⁵ The goal of improving access to the Low Income Services Program is laudable, but contradicts the premise that all DSM programs must be cost-effective. As demonstrated previously, the Low Income Services Program is the least cost-effective and involves the highest level of incentives paid to customers of all the Company's DSM programs.¹⁶ Nevertheless, Duke Energy Kentucky is committed to maintaining the Low Income Service Program as part of its DSM portfolio,¹⁷ and is always eager to entertain suggestions as to how it might be improved. Rather than accede to the Attorney General's suggestion that the Commission should unilaterally reform the program, the better option would be to follow the procedure prescribed in KRS 278.285 itself. Duke Energy Kentucky encourages the input of the Attorney General in the collaborative process of which he is already a member and, as set forth in the statute, hopes that the Attorney General's participation will include not just a list of suggestions for the DSM program, but also his willingness to actively support the collaborative's work.

In summary, Duke Energy Kentucky has worked diligently to develop and deploy a portfolio of DSM programs that service the needs and requirements of all segments of its customer base. The Company has also strived to make the barriers to participation as low as possible and has kept a keen eye on assuring that its DSM programs remain cost effective. Certainly, those customers who choose to participate will benefit the most, but there is no dispute that all customers

¹⁵ See *id.*, p. 6.

¹⁶ See Duff Direct, pp. 24-25, Attachment TJD-1.

¹⁷ See HVR 11:05:30.

share in the sum of the benefits afforded by the complete suite of DSM offerings. For the reasons set forth in Duke Energy Kentucky's June 27, 2018 Brief and herein, the Company's existing DSM programs has proven to be cost-effective, fair, just and reasonable and should be retained.

WHEREFORE, on the basis of the foregoing, Duke Energy Kentucky respectfully requests the Commission to:


- 1) Vacate and set aside the February 14, 2018 Order entered in this case;
- 2) Grant the relief requested in the Annual Statement in Case No. 2017-00427, Application in Case No. 2017-00324 and Application in Case No. 2018-00009; and
- 3) Award all other relief to which the Company may be entitled.

This 18th day of July, 2018.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that foregoing electronic filing is a true and accurate copy of the document being filed in paper medium; that the electronic filing was transmitted to the Commission on July 18, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that a copy of the filing in paper medium is being hand delivered to the Commission within two business days.



Counsel for Duke Energy Kentucky, Inc.