**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

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| Electronic Application Of Kentucky Power Company For: (1) Approval To Expand Its Targeted Energy Efficiency Program; (2) Approval Of A Home Energy Improvement Program And A Commercial Energy Solutions Program; (3) Authority To Recover Costs And Net Lost Revenues, And To Receive Incentives Associated With The Implementation Of Its Demand-Side Management/Energy Efficiency Programs; (4) Approval Of Revised Tariff D.S.M.C.; (5) Acceptance Of Its Annual DSM Status Report; And (6) All Other Required Approvals And Relief | ) ) ) ) ) ) ) ) ) ) ) | Case No. 2024-00115 |

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# INITIAL BRIEF OF KENTUCKY POWER COMPANY

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# I. INTRODUCTION

Kentucky Power Company ("Kentucky Power" or "the Company") filed this application as a first step in reinvigorating its demand-side management ("DSM") portfolio through the expansion to its Targeted Energy Efficiency ("TEE") Program, and the implementation of two new programs: the Home Energy Improvement Program ("HEIP") and the Commercial Energy Solutions Program ("CESP"). The Company proposed these programs to be part of a comprehensive and intentional suite of DSM programs available to its customers. Kentucky Power also seeks to recover the costs associated with the programs, net lost revenues, the receipt of incentives associated with the implementation of the programs, and the costs to publish the required customer newspaper notice, in accordance with Kentucky law. The Company's proposals in this proceeding should be approved because they are reasonable and meet the requirements set forth in KRS 278.285(1), and because the proposals strike a balance between offering valuable program benefits and being conscious of the rate increases coincident with adding new and expanded DSM programs.

# II. BACKGROUND

## A. Kentucky Power's Past and Current DSM/EE Offerings.

The primary objective of utility DSM programs is to provide cost-effective measures and programs that encourage the adoption of energy efficiency by its customers to help defer the need for new sources of power, including generation assets, energy market purchases, and transmission and distribution capacity additions.[1] A major ancillary benefit to an electric utility

[1] Nolen Direct Test. at 4.

is enhanced customer satisfaction with the ability to offer resources such as personalized energy audits and incentives to participants in the DSM/EE programs.[2]

Kentucky Power has almost thirty years of experience designing, implementing, and refining DSM and EE programs.[3] The Company has offered DSM/EE programs since 1996 when the Commission approved the Company's initial set of eight cost-effective DSM/EE programs with input from the Company's Demand-Side Management Collaborative group.[4] The program costs and lost revenues were and are recovered through the Company's DSM surcharge in accordance with Kentucky law.[5] Over the years, the Company has offered thirty different DSM/EE programs to the Company's three customer classes (industrial, commercial, and residential).[6]

The Company currently offers and operates one DSM program, the TEE Program, which the Commission first approved in Case No. 1995-00427.[7] The TEE Program targets low-income residential customers and currently is designed to provide supplemental funding to the Department of Energy's ("DOE") Weatherization Assistance Program.[8] Supplemental funding provided through the TEE Program helps support home energy audits and installed energy efficiency measures such as high efficiency heat pumps, air and duct sealing, insulation (attic, sidewall, and floor), lighting, and hot water heater measures such as tank insulation jackets, low-

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[2] *Id.*
[3] *Id.* at 5.
[4] *Id.*
[5] *Id.*
[6] *Id.*
[7] *See* Order, *The Joint Application Pursuant to 1994 House Bill No. 501 for the Approval of American Electric Power/Kentucky Power Company ("AEP/Kentucky") 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*, Case No. 1995-00427 (Ky. P.S.C. Feb. 28, 2000).
[8] Nolen Direct Test. at 5.

flow showerheads, and pipe insulation to income-eligible customers.[9] Local Community Action Agencies use the DOE and Kentucky Power supplemental funding to implement the energy efficiency measures under the DOE's Weatherization Assistance Program.[10] The TEE Program is available to low-income residential customers whose primary heat source is electricity and who use an average of at least 700 kWh per month.[11] In addition, limited efficiency measures are available to customers whose primary heat source is not electric, but who have electric water heaters and use an average of at least 700 kWh of electricity per month from November through March.[12] In 2024, the budget for the TEE Program was $299,500, allowing for 94 participants in the Program, an $18,500 increase from its previous level.[13]

Since the TEE Program began in 1996, it has produced cumulative energy savings of approximately 92.3 GWh with a cumulative demand reduction of approximately 1.3 MW in the summer and 3.8 MW in the winter.[14] Based on a random sample from three all-electric homes served by the TEE Program in early 2023, those customers saved an average of 6,079 kWh, or 30 percent, on energy usage in the twelve months following initial participation in the Company's TEE Program.[15]

### B. The Market Potential Study.

To identify the most effective energy efficiency measures and programs to propose to the Commission for approval in this proceeding, Kentucky Power solicited a Market Potential Study ("MPS") from GDS Associates, Inc. ("GDS").[16] The MPS was a critical first step in determining

[9] *Id.*
[10] *Id.*
[11] *Id.* at 6.
[12] *Id.*
[13] *Id.*
[14] *Id.* at 7.
[15] *Id.*
[16] *Id.* at 7, 9.

realistic, achievable savings potential by conducting market research, determining cost-effective measures, and providing an independent assessment on the feasibility of energy efficiency programs in the Company's service territory.[17] The Company used the results and recommendations contained in the MPS, the Company's past experience with prior DSM programs, and considered feedback from interested stakeholders to select the DSM programs proposed in this application. The Company aimed to propose programs that would offer a net benefit to customers while also being conscious of the programs' impact on customer rates.

### C. Proposed DSM Offerings.

#### 1. TEE Program Expansion.

First, the Company proposes to expand the existing TEE Program to also include supplemental funding for the DOE's Weatherization Readiness Fund, which provides funding to low-income residential customers to ready homes so that they are eligible for benefits under the DOE's Weatherization Assistance Program, when they otherwise would not be eligible.[18] The Company proposes to include as supplemental funding for the Weatherization Readiness Fund up to $1,000 per home for 15 total homes in 2025, 20 total homes in 2026, and 25 total homes in 2027.[19] The Company determined that providing $1,000 per home in supplemental funding was appropriate after discussing with Community Action Agencies in the service territory.[20] The Company also proposes to expand the existing eligible measures for which the Company currently provides supplemental funding for the Weatherization Assistance Program, including heat pump water heaters, ductless heat pumps, and ENERGY STAR room air conditioners.[21]

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[17] *Id.* at 7.
[18] *Id.* at 11.
[19] *Id.* at 15.
[20] *Id.*
[21] *Id.* at 15-16.

Finally, after receiving direct feedback from Community Action Agencies about increases to their costs to administer the TEE Program, the Company proposes an increase to the customer energy education expense from $50 to $75 per customer application and an increase to the administration expense from $200 to $300 per customer application.[22]

**2. Home Energy Improvement Program.**

Second, the Company proposes to create a new DSM/EE program called the Home Energy Improvement Program ("HEIP"), which is available to qualifying residential customers and provides home energy audits and installation of select energy conservation measures, as well as financial incentives for qualifying heating, ventilation, and air conditioning ("HVAC") equipment and weatherization measures.[23] This program is available on a voluntary basis until funds are depleted to individual residential customers living in single family, multi-family, or mobile homes, receiving retail electric service from the Company, and who have an electric HVAC system.[24] The HEIP will look at the customer's home holistically to determine the best course of action to identify and incentivize energy efficiency opportunities.[25] Eligible measures will include: home energy audits after which customers may receive installed measures; incentives or rebates for weatherization measures; and incentives or rebates for HVAC measures.[26]

The MPS shows that the HEIP is cost-effective[27] under the Total Resource Cost test.[28] The Company proposes anticipated annual budgets of $664,681, $548,607, and $619,716 for the

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[22] *Id.* at 16.
[23] Nolen Direct Test., Exhibit BLN-2 at 1.
[24] *Id.*
[25] *Id.*
[26] *Id.*
[27] Nolen Direct Test., Exhibit BLN-1 at 44 of 123.
[28] Kentucky Power relied on the Total Resource Cost test to assess cost-effectiveness based on the Commission's statement in a 2017 LGE/KU case that, "[t]he Commission has traditionally evaluated DSM effectiveness by

first three years of the program, respectively.[29] Those budgets are made up of administration, marketing, information technology, and incentive costs.[30]

### 3. Commercial Energy Solutions Program.

Third, the Company proposes to create a new DSM/EE program called the Commercial Energy Solutions Program ("CESP"), which is available to qualifying commercial customers and provides energy audits and financial incentives for qualifying energy-efficient improvements and technologies.[31] The CESP will be available on a voluntary basis until funds are depleted to commercial customers in Kentucky Power's service territory.[32] The program provides incentives for common commercial energy efficiency projects where energy savings can be reliably predicted.[33] This list of eligible measures will be expanded over the course of a three-year period.[34] Eligible measures include: energy audits to identify potential energy efficiency opportunities; incentives for LED lighting measures in year one of the program; incentives for HVAC measures in year two of the program; and incentives for food service equipment measures in year three of the program.[35]

The MPS shows that the CESP is cost-effective under the Total Resource Cost test.[36] The Company proposes anticipated annual budgets of $710,011, $779,409, and $686,862 for the first

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focusing on the Total Resource Cost results." Order at 29, *In the Matter Of: Electronic Joint Application of Louisville Gas And Electric Company And Kentucky Utilities Company for Review, Modification, And Continuation of Certain Existing Demand-Side Management and Energy Efficiency Programs*, Case No. 2017-00441 at 29 (Ky. P.S.C. Oct. 5, 2018).

[29] Nolen Direct Test., BLN-2 at 2.

[30] *Id.*

[31] Nolen Direct Test., BLN-3 at 1.

[32] *Id.*

[33] *Id.*

[34] *Id.*

[35] *Id.*

[36] Nolen Direct Test., Exhibit BLN-1 at 46 of 123.

three years of the program, respectively.[37] Those budgets are made up of administration, marketing, information technology, and incentive costs.[38]

Discussions about the specifications and further details of each proposed program were provided in Company Witness Nolen's testimony.[39]

**4. Program Management and Marketing.**

Kentucky Power developed implementation plans for all three of the programs proposed in its Application. First, the TEE Program would continue to be administered and managed as it currently is, through Community Action Agencies in Kentucky Power's service territory.[40]

If approved, HEIP and CESP would be managed by an implementation contractor, TRC Companies ("TRC").[41] TRC would provide a turnkey solution by developing marketing collateral and customer applications, advertising the programs, performing pre- and post-audit inspections where applicable, building-out the trade ally network to assist customers with the installation of measures, and providing the incentive checks to program participants.[42] The HEIP and the CESP would be marketed collectively by Kentucky Power and TRC, with Kentucky Power and its Corporate Communications team having final approval and direction of all marketing materials created by TRC.[43] Kentucky Power and TRC would utilize a targeted strategy to market the programs by focusing on population demographics such as age, employment, home size, and renter vs. owner occupied housing units.[44] Other marketing efforts

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[37] Nolen Direct Test., BLN-3 at 2.
[38] *Id.*
[39] Nolen Direct Test. at 13–21.
[40] *Id.* at 29.
[41] *Id.*
[42] *Id.*
[43] *Id.* at 31.
[44] *Id.*

would be implemented, including updates to Kentucky Power's website, and deployment of a toll-free phone number and email address for customers to gather information and assistance.[45]

TRC was selected as the implementation contractor as a result of an RFP that the Company initiated in the third quarter of 2023 at the recommendation of GDS in the MPS.[46] After the review and interview process where the Company evaluated such metrics as experience, staff location, customer and contractor support, incentive payment structure, program ramp-up, marketing, quality assurance and control policies, and budget, the Company determined that TRC was the most cost-effective and best option.[47] TRC also currently implements similar DSM programs at Kentucky Power's affiliate, Appalachian Power Company, and has established operations and a trade ally network in Appalachia that would allow a more efficient and quicker ramp-up for the programs, if approved.[48] The use of an implementation contractor is beneficial to the efficacy of the programs because TRC has the industry experience and local staffing needed to onboard additional trade allies, market the programs, and provide timely incentive payments to customers.[49] Kentucky Power would receive monthly, quarterly, and annual reports tracking participation and energy savings to ensure the programs are on track to reach their projected goals.[50]

TRC's experience in the DSM space, coupled with the economies of scale benefits from similar programs managed at Appalachian Power Company, provides customers with the least-cost option from the RFP responses, a better customer experience, more personalized energy

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[45] *Id.*
[46] *Id.* at 29.
[47] *Id.*
[48] *Id.* at 30.
[49] *Id.*
[50] *Id.*

audits performed by local trade allies, and a program ramp-up schedule that would realize customer benefits and savings sooner.[51]

**D. Proposed Rates.**

**1. Recovery of Lost Revenues and Incentives.**

In accordance with KRS 278.285(1), and consistent with the Company's past Commission-approved practice, the Company is proposing to recover the full costs of its existing and proposed DSM programs, including the costs to run and manage the DSM programs, net revenues lost due to reduced sales resulting from the programs, and shared-savings incentives designed to provide positive financial rewards to the Company to encourage implementation of cost-effective DSM programs.[52] Kentucky Power included efficiency incentives (as the shared-savings component) in the DSM rate calculation at a level of 15 percent of the estimated net savings associated with the programs.[53]

Kentucky Power has not proposed in this proceeding to change its long-standing methodology for calculating net lost revenues or shared savings.[54] The Company's current practice to recover DSM-related expenses is to file an annual application requesting authority to continue and/or modify its DSM programs and to update the DSM rate.[55] In connection with that annual application, the Company performs a true-up of the DSM revenue collected versus expenses for the current year and adds in the proposed DSM budget for the upcoming year for each customer class and determines what the new DSM rate should be for the following year for each customer class.[56] The Company also proposes in this application to recover through the

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[51] *Id.*
[52] Bishop Direct Test. at 6.
[53] *Id.*
[54] *Id.* at 7.
[55] *Id.* at 6.
[56] *Id.* at 6–7.

DSM surcharge the cost to run the customer newspaper notice of the Company's proposals in this case, which the Company is required to provide under 807 KAR 5:011, Section 8(2)(b).

**2. Rate Design.**

Kentucky Power calculates its DSM surcharge rate by adding any under-recovery or over-recovery from the prior program year, plus actual and estimated expenses for the current program year, plus the revenue collected and estimated to be collected in current program year, plus the estimated expenses for the next program year, and then dividing that sum by forecasted sales for the next program year.[57] Kentucky Power used its actual expenses and revenues through March 31, 2024 and its estimated expenses and revenues for the remainder of 2024 when calculating the estimated 2025 DSM rate.[58] Kentucky Power then supplemented its initial calculation by re-evaluating with the actual expenses and revenues as of April-November 2024.[59]

## III. APPLICABLE LAW

When assessing proposed DSM/EE plans, the Public Service Commission may determine their reasonableness.[60] To determine the reasonableness of a proposed program, the Commission should consider the following non-exclusive factors:

> (a) The specific changes in customers' consumption patterns which a utility is attempting to influence;
> (b) The cost and benefit analysis and other justification for specific demand-side management programs and measures included in a utility's proposed plan;
> (c) A utility's proposal to recovery in rates the full costs of demand-side management programs, any net revenues lost due to reduced sales resulting from demand-side management programs, and incentives designed to

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[57] Bishop Direct Test. at 7; *see* Joint Stipulation of Facts (Dec. 18, 2024) (attesting that the Company has calculated its proposed rates in accordance with previous revised surcharge calculations).
[58] Bishop Direct Test., Exhibit SEB-2.
[59] Kentucky Power Company's Notice of Filing Updated Estimated Proposed DSM Rates (filed Dec. 10, 2024); Bishop Direct Test., Supp. Exhibit SEB-2.
[60] KRS 278.285(1).

provide positive financial rewards to a utility to encourage implementation of cost-effective demand-side management programs;

(d) Whether a utility's proposed demand-side management programs are consistent with its most recent long-range integrated resource plan;

(e) Whether the plan results in any unreasonable prejudice or disadvantage to any class of customers;

(f) The extent to which customer representatives and the Office of the Attorney General have been involved in developing the plan, including program design, cost recovery mechanisms, and financial incentives, and if involved, the amount of support for the plan by each participant, provided however, that unanimity among the participants developing the plan shall not be required for the commission to approve the plan;

(g) The extent to which the plan provides programs which are available, affordable, and useful to all customers; and

(h) Next-generation residential utility meters that can provide residents with amount of current utility usage, its cost, and can be capable of being read by the utility either remotely or from the exterior of the home.[61]

The Commission may also review and approve a DSM mechanism meant to "[r]ecover the full costs of commission-approved demand-side management programs and revenues lost by implementing" DSM programs.[62]

## IV. ARGUMENT

### A. The Commission should approve Kentucky Power's programs as proposed.

The Commission should approve all three of Kentucky Power's DSM proposals because they are reasonable in consideration of the factors set forth in KRS 278.285(1), they represent a first step in gradually expanding DSM programs in an effort to benefit customers, and the proposals will result in only a modest increase to the DSM surcharge.

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[61] *Id.*

[62] KRS 278.285(2).

### 1. Kentucky Power's proposed programs are reasonable based on the factors in KRS 278.285(1).

The Commission can look to the non-exhaustive factors set forth in KRS 278.285(1) to determine the reasonableness of Kentucky Power's proposed DSM programs. Here, the factors undoubtedly weigh in favor of approval.

First, the Company intends for the programs to reduce customer energy consumption by providing cost-effective measures that encourage the adoption of energy efficiency to help defer the need for new sources of power, including generation assets, energy market purchases, and transmission and distribution capacity additions.[63] The Company projected the annual energy, summer demand, and winter demand savings for the proposed DSM program portfolio as a whole for 2025 through 2027, as follows:[64]

**Table 2: 2025 - 2027 Projected Annual DSM Portfolio Savings**

| Savings | Unit | Year 1 (2025) | Year 2 (2026) | Year 3 (2027) |
|---|---|---|---|---|
| **Energy** | MWh | 3,183 | 3,812 | 4,407 |
| **Summer Demand** | kW | 385 | 478 | 561 |
| **Winter Demand** | kW | 526 | 651 | 762 |

Second, the Company's MPS clearly demonstrates that the entire DSM portfolio, and specifically the two new proposed programs, are cost-effective.[65] Under the TRC test, the Commission's preferred test for determining whether a DSM program is cost-effective, a score of 1.0 or greater indicates the program passes the cost/benefit test, meaning that the value of the program's benefits is equal to or greater than the cost of the program. The HEIP and the CESP both passed the TRC test with scores of 1.55 and 1.56, respectively.[66] While the proposed

[63] *See id.* § 278.285(1)(a).
[64] Nolen Direct Test. at 24-25.
[65] *See* KRS 278.285(1)(b).
[66] Nolen Direct Test. at 23; Exhibit BLN-1 at 44, 46 of 123.

expansion of the TEE Program falls slightly below the 1.0 threshold for cost-effectiveness,[67] the TEE Program as it currently exists and the proposed expansion are nonetheless justified and beneficial to customers because the TEE Program targets low-income customers, and the Commission has recognized the benefits of such a program in the past.[68]

Third, the Company proposed to recover in rates the full costs of the DSM programs proposed, as well as net revenues lost due to reduced sales resulting from DSM programs, and shared-savings incentives designed to provide positive financial rewards to the utility to encourage implementation of cost-effective DSM programs.  Kentucky Power included efficiency incentives (as the shared-savings component) in the DSM rate calculation, at a level of 15 percent of the estimated net savings associated with the programs.  Estimated net savings are calculated based on the California Standard Practice Manual's definition of the Total Resource Cost Test.  This level of incentives is appropriate, as it incentivizes the Company to manage its DSM programs in a manner that best serves its customers by spending on and managing its DSM programs in a manner that achieves the maximum level of benefits to its customers while managing the attendant costs.  Other investor-owned utilities also utilize the same shared-savings mechanism, including Louisville Gas & Electric, Kentucky Utilities, and Duke Energy Kentucky.[69]

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[67] Nolen Direct Test., Exhibit BLN-1 at 43 of 123.

[68] *See* Order at 14-15, *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 (Ky. P.S.C. January 18, 2018).

[69] *See* LG&E P.S.C. Electric No. 13, Original Sheet No. 86.2 ("For all Energy Efficiency Programs, the DSMI shall be computed by multiplying the net resource savings expected from the approved programs that are to be installed during the upcoming twelve-month period times fifteen (15) percent, not to exceed five (5) percent of program expenditures"); Duke Kentucky KY.P.S.C. Electric No. 2 Third Revised Sheet No. 75, page 3 of 4 ("The DSM Program Incentive (PI) amount shall be computed by multiplying the net resource savings expected from the approved programs which are to be installed during the upcoming twelve-month period times fifteen (15) percent.")

The Joint Intervenors' proposal (that the shared-savings incentive should be based on the achievement of various goals rather than a percentage of net savings, and that a threshold should be set for the Company to receive its incentive upon achieving 75% to 125% of the approved energy and demand savings in the program year) would do the opposite.[70] For example, in a scenario where the Company would be required to achieve the 75% threshold to receive its shared-savings incentive, if the Company would have already spent its program budget for that year but had not met its savings threshold, then the Company would be incentivized to increase its spending beyond its budget to achieve that savings threshold.[71] This could increase the cost to customers, while customers would still only receive 75% of the benefits associated with the programs.[72] Under the current and proposed model, in that same situation, the Company instead would be incentivized to manage the programs most efficiently to customers benefit because it would receive the shared-savings incentive based on the net savings of the programs achieved regardless of the amount of savings actually realized.[73]

Fourth, the Company's DSM proposals are consistent with the offerings modeled in its most recent IRP, and the three-year Action Plan contained therein.[74] The Company included DSM/EE load forecast impacts and modeled certain DSM offerings in the Company's most recent IRP in 2023.[75]

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[70] Wolffram Rebuttal Test. at 15.
[71] *Id*.
[72] *Id.*
[73] *Id.*
[74] *See* KRS 278.285(1)(d); Kentucky Power Company's Integrated Resource Planning Report, *In The Matter Of: Electronic 2022 Integrated Resource Planning Report of Kentucky Power Company*, Case No. 2023-00092 (Ky. P.S.C. Mar. 20, 2023).
[75] Nolen Direct Test. at 4. Details of the Company's current capacity position are discussed in detail in Case No. 2023-00092.

Fifth, the Company has developed the proposed programs in a manner that does not result in unreasonable prejudice or disadvantage to any class of customers.[76] The TEE Program and the proposed expansion are targeted toward low-income residential customers; the HEIP is targeted toward all residential customers; and the CESP is targeted toward all commercial customers. At this juncture, industrial customers are the only group with no applicable DSM proposed programs, due to their lack of interest and ability to self-implement DSM practices, and they will not be prejudiced because the DSM surcharge will not be added to their bills as a result.[77]

Sixth, the Company held three stakeholder meetings during the development of the Market Potential Study and after the Company selected the DSM/EE programs to propose for approval.[78] The stakeholder group consisted of members from Kentucky Power, the Attorney General's office, the Kentucky Energy And Environment Cabinet, Community Action Agencies, Mountain Association, The Kentucky Solar Energy Society, Earth Justice, Kentucky Resources Council, Kentuckians For The Commonwealth, Appalachian Citizens Law Center, Kentucky Conservation Committee, Energy Futures Group, HOMES, Inc., Housing Development Alliance, and Federation Of Appalachian Housing Enterprises.[79] The programs proposed in this application were generally supported by most attendees of the stakeholder meetings,[80] though some suggestions for potential modifications (mostly increased investment) were made by

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[76] *See* KRS 278.285(1)(e).
[77] Nolen Direct Test. at 12–13.
[78] *Id.* at 10.
[79] *Id.*
[80] *Id.* at 27. Attendees included members from Kentucky Power, the Attorney General's office, the Kentucky Energy and Environment Cabinet, Community Action Agencies, Mountain Association, the Kentucky Solar Energy Society, Earth Justice, Kentucky Resources Council, Kentuckians for the Commonwealth, Appalachian Citizens Law Center, Kentucky Conservation Committee, Energy Futures Group, HOMES, Inc., Housing Development Alliance, and Federation of Appalachian Housing Enterprises. *Id.* at 10.

various stakeholders.[81] The Company incorporated stakeholder suggestions such as offering home audits in year one of the HEIP, increasing the TEE Program investment in the Weatherization Readiness Fund each year, and setting a customer inventive cap on the CESP to ensure funds were dispersed as evenly as possible.[82] Notably, the Joint Interveners do not appear to object to the cost-effectiveness of the proposed programs in this proceeding, but rather argue that Kentucky Power should have proposed a more expansive portfolio with more programs than the three set forth here.[83]

Seventh, Kentucky Power has worked to ensure that the proposed programs are available, affordable, and useful to the customers in its service territory.[84] The Company has presented programs that are available across customer classes and that are implemented by boots-on-the-ground Community Action Agencies and TRC, which are ingratiated in the communities that the programs intend to serve so that programs are marketed to customers effectively and efficiently. Kentucky Power also was conservative in its offerings by choosing programs that are known to have been successful in Kentucky Power's service territory in the past. Moreover, being selective in its program offerings also results in only modest rate increases for residential and commercial customers that are calculated to not be bloated in comparison to the benefits actually realized by customers.

Finally, with respect to KRS 278.285(1)(h), all of Kentucky Power's residential automatic meter reading meters can provide residents with their amount of current utility usage, its cost, and are capable of being read by the Company either remotely or from the exterior of the

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[81] *See* KRS 278.285(1)(f).
[82] Nolen Direct Test. at 27.
[83] *See generally* Harris Direct Test.; Sherwood Direct Test.
[84] *See* KRS 278.285(1)(g).

home.[85] This ensures the customer and the Company's ability to monitor the effectiveness of any measures taken in a customers' home as a result of the proposed programs.

Because the factors contained in KRS 278.285(1) all demonstrate that the Company's DSM/EE proposals are reasonable, the Commission should approve them as proposed.

**2. The proposed programs are a gradual first step in offering more DSM programs to customers.**

The Commission should also approve Kentucky's proposed programs because the application represents an initial step in creating a comprehensive, yet cost-effective suite of DSM/EE programs that provide benefits to the customers in the Company's service territory without overburdening them financially.

Kentucky Power has ample experience with administering DSM/EE programs, and proposes the TEE Program expansion and the deployment of the HEIP and CESP with that experience in mind. After the Commission ordered Kentucky Power in 2018 to eliminate all DSM/EE programs, with the exception of the TEE Program, Kentucky Power consciously balanced reasonable rate increases with the desire to provide programs that will garner significant participation and offer benefits that are valuable to the customers and the region. Instead of offering a wide breadth of specific programs in the hopes that they would garner sufficient participation to warrant the attendant rate increase, Kentucky Power instead focused on developing fewer, but well-thought out programs that would be valuable and enticing to customers. Based on the performance of these programs and the rate of participation, Kentucky Power is open to proposing some other cost-effective programs with customer interest in the future, including some of those proposed by the Joint Intervenors.

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[85] Nolen Direct Test. at 29.

Ultimately, Kentucky Power views these proposed programs as the beginning of a gradualist approach to DSM/EE programming that is designed to offer consistent benefits to customers and avoid termination similar to that ordered by the Commission in 2018. Because these proposals have been developed reasonably with the necessary caution and detail, the Commission should approve their implementation.

### 3. Kentucky Power's proposals are conscientious of the effect on customers' rates.

In an effort to balance the benefits of the proposed programs with the need to control the resulting surcharge on the customers' bills, Kentucky Power has proposed program budgets and incentive levels that are reasonable and in accordance with past Commission precedent. In accordance with KRS 278.285(2), and consistent with the Company's past Commission-approved practice,[86] the Company is proposing to recover the full costs of its existing and proposed DSM programs, including the costs to run and manage the programs, net revenues lost due to reduced sales resulting from the programs, and shared-savings incentives designed to provide financial rewards to the utility to encourage implementation of the programs.[87]

Moreover, the Company has not proposed a change to the methodology by which it recovers DSM expenses.[88] Instead, it has utilized the methodology previously approved by the

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[86] *See, e.g.*, Application, *In the Matter of: Application of Kentucky Power Company For (1) Authority To Modify Certain Existing Demand-Side Management Programs; (2) Authority to Implement New Programs; (3) Authority To Discontinue Certain Existing Demand-Side Management 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, at 23 (Ky. P.S.C. Sept. 15, 2015) (applying to recover the full costs associated with the Company's entire DSM/EE portfolio); Order *In the Matter of: Application of Kentucky Power Company For (1) Authority To Modify Certain Existing Demand-Side Management Programs; (2) Authority to Implement New Programs; (3) Authority To Discontinue Certain Existing Demand-Side Management 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 at 16 (Ky. P.S.C. Mar. 11, 2016) (approving Kentucky Power's proposed DSM surcharge factors).
[87] Bishop Direct Test. at 6.
[88] *Id.* at 7.

Commission so as to fairly and equitably recover its costs in a manner that incentivizes the Company to encourage participation in the programs. The use of previously-approved methodology for calculating the lost revenues, therefore, also supports Kentucky Power's position that its proposals are reasonable.

The use of this reasonable methodology has resulted in a proposed rate increase that reimburses and incentivizes the Company, while maintaining only a modest increase to the DSM surcharge. Kentucky Power's proposals would have the effect of increasing the residential rate to $0.000587 per kWh and the commercial rate to $0.000573 per kWh.[89] These increases will have a minimal effect on the customers' ultimate bills.[90]

**B. The Commission should approve Kentucky Power's requests to recover the customer notice costs through the DSM surcharge.**

Kentucky Power is required to provide notice to its customers of the new and modified DSM programs proposed in its application, as well as the proposed increased DSM rate.[91] Consistent with this obligation, the Company elected to provide the required notice to customers by publishing the notice once a week for three consecutive weeks in a prominent manner in a newspaper of general circulation in each of the counties in the Company's service territory.[92] This was the most efficient and cost-effective manner of providing the required customer notice of the options provided for by regulation. In total, it cost the Company approximately $30,333 to publish the required notice in a newspaper of general circulation in each county in the Company's service territory for the required three consecutive weeks.[93]

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[89] *See* Kentucky Power Company's Notice of Filing Updated Estimated Proposed DSM Rates (filed Dec. 10, 2024).
[90] *See* Bishop Direct Test. at 8 (noting that the Company calculated an approximate $0.56 monthly increase for residential customers based on the Company's original estimated DSM rate).
[91] *See* 807 KAR 5:011 § 8.
[92] *See* Bishop Direct Test., Exhibit SEB-4.
[93] *See* Company's response to JI 1-27 (filed July 8, 2024).

KRS 278.285(2) provides that the "full costs of Commission-approved demand-side management programs" are recoverable. The costs associated with publishing the customer notice are recoverable under this provision because the Company is required to expend those costs in order to obtain approval for DSM programs.[94] This interpretation of the statute is supported because the Company is required to incur the customer notice publication costs pursuant to Commission regulation, the costs are reasonable and prudent and directly related to the DSM programs, and the Company would not have incurred the expense absent the proposals to implement new and modified programs in its application. The Company included the publication costs in the calculation of the updated DSM rate filed in December of 2024.[95] The Company respectfully requests the Commission affirm this interpretation and approve the inclusion of these costs as part of the DSM program costs recoverable through the DSM rate as provided in KRS 278.285(2).

## V. CONCLUSION

Kentucky Power respectfully requests that the Commission enter an Order:

(1) approving the expansion and proposed other modifications to its Targeted Energy Efficiency Program;

(2) approving the proposed Home Energy Improvement Program and Commercial Energy Solutions Program;

(3) authorizing recovery of costs and net lost revenues, and the receipt of incentives associated with the implementation of its demand-side management/energy efficiency programs, including the costs to publish the required customer newspaper notice;

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[94] *See* 807 KAR 5:011, Section 8.
[95] *See* Bishop Direct Test., Supp. SEB-2 (filed Dec. 10, 2024).

(4) approving revised Tariff D.S.M.C., including the increase to the DSM rate;

(5) accepting its 2023 Annual DSM Status Report; and

(6) granting all other required approvals and relief.

Respectfully submitted,

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