

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY,)
INC. FOR THE ANNUAL COST RECOVERY) CASE NO. 2011-00448
FILING FOR DEMAND-SIDE MANAGEMENT)

ATTORNEY GENERAL'S COMMENTS

Comes now the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits his comments in the above-referenced case.

I. Application Summary

Pursuant to KRS 278.285, Duke Energy Kentucky, Inc. (hereinafter referred to as "the Company") has filed its annual status report concerning its demand-side management ("DSM") program as last approved by Order of the Commission in Case No. 2010-00445. In addition, the Company seeks the Commission's approval of a modification of the Company's DSM Riders to reflect reconciliation of planned and actual expenditures, lost revenues and shared savings.

II. Attorney General's Comments

The Attorney General generally applauds the Company's efforts but offers the following comments on its existing programs.

A. Separate Accounting of Employee-Related DSM Costs

The Attorney General commends the Company's commitment in Case No. 2006-00172 to track and account for the company's employee-related DSM expenses within the DSM program only.¹ Without separate accounting, a utility could seek (1) to recover its full costs of Commission-approved programs and revenues lost by implementing those programs and incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs under KRS 278.285(2)(a) and (b), and (2) to recover a return on equity for such expenses under Chapter KRS 278.190. Such a result would be unfair and completely unjustifiable for the ratepayers to be forced to bear. Accordingly, the Attorney General requests that the Commission include in its Order a requirement that the Company continue to maintain a separate accounting of all its costs related to DSM or energy efficiency and not include those costs, including internal personnel costs relating to such programs, in its base rates.

B. Education Component – Residential Comprehensive Energy Education Program (NEED)

In response to the Company's 2007 DSM application in Case No. 2007-00369, the Attorney General questioned the reasonableness of the education component of the Company's DSM program, which the Company subcontracts

¹ See also Duke Application Kentucky, Inc.'s Responses to Commission Staff's Second Set of Data Requests, Response to STAFF-DR-02-002(a).

to the National Energy Education Development (NEED) Project. In 2007, the Attorney General recommended discontinuing this education component. While the Attorney General agrees that efforts to inform the public regarding energy conservation issues are important, the efficient use of ratepayer funds is equally important. The Attorney General has consistently maintained in this and other DSM cases that most education programs are essentially goodwill exercises on behalf of a company and have little or no measureable impact on energy usage.

The cost effectiveness test result scores for the education program are truly negligible.² There is simply little to no verifiable data that may be offered to support assumptions that school-age education efforts will have a demonstrable effect on energy consumption. Rather, it is much more likely that such a program, even in the context of a public/private partnership, will merely result in increased goodwill to the company. Regarding the most recent data supplied by the Company, the proposal to maintain the same projected program costs despite a lower than anticipated enrollment does not appear to be an efficient use of consumer dollars.

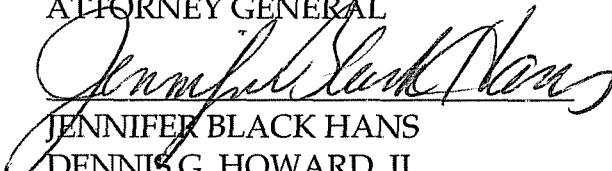
Despite these continuing concerns as to education programs generally, the Attorney General is supportive of efforts by the Kentucky Department for Energy Development and Independence (DEDI) in partnership with the Kentucky NEED Project to expand program goals and facilitate energy saving

² See Appendix A to Duke Energy Kentucky, Inc.'s Application; see also Duke Energy Kentucky, Inc.'s Responses to Attorney General's First Set of Data Requests, AG-DR-01-001.

planning within the schools. The Kentucky High Performance Sustainable Schools Program, which focuses more on training school operations and maintenance staff to develop energy plans and energy savings behavior by all members of the school community, appears to be a step in the right direction. Similarly, the Attorney General supports the Company's continued efforts to improve and better document energy savings associated with Home Energy Efficiency Kits distributed by the education component using home surveys.

Subject to the above comments, the Attorney General would recommend the Commission accept the annual status report, including the Company's responses to data requests, and approve the Application as to DSM Riders.

Respectfully submitted,
JACK CONWAY
ATTORNEY GENERAL



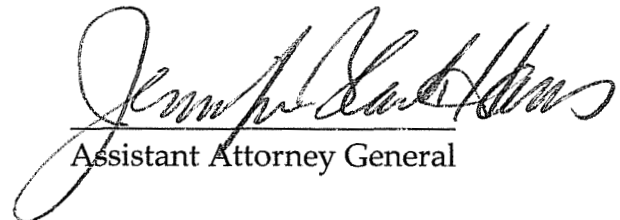
JENNIFER BLACK HANS
DENNIS G. HOWARD, II
LAWRENCE W. COOK
ASSISTANT ATTORNEYS GENERAL
1024 CAPITAL CENTER DRIVE
SUITE 200
FRANKFORT KY 40601-8204
(502) 696-5453, FAX: (502) 573-1009

Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the Attorney General's Comments were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to:

Kristen Cocanougher
Duke Energy Kentucky, Inc.
139 East 4th Street, R. 25 At II
P. O. Box 960
Cincinnati, OH 45201

all on this 1st day of March 2012.


Assistant Attorney General