

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ANNUAL COST RECOVERY FILING FOR )  
DEMAND SIDE MANAGEMENT BY ) CASE NO. 2014-00388  
DUKE ENERGY KENTUCKY, INC. )

ORDER

On November 12, 2014, Duke Energy Kentucky, Inc. (“Duke Kentucky”) filed its Annual Cost Recovery Filing for Demand Side Management (“DSM”) application (“Application”). Included in the Application is the Annual Status Report, Adjustment of the DSM Cost Recovery Mechanism, and Amended Tariff Sheets for Gas Rider DSMR and Electric Rider DSMR. According to the Application, Duke Kentucky met with the Residential Collaborative<sup>1</sup> and the Commercial and Industrial Collaborative,<sup>2</sup> whose members in attendance, agreed with the Application. The Attorney General (“AG”) reserved the right to express his opinion at a later date.<sup>3</sup>

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<sup>1</sup> The Residential Collaborative members in attendance were: Jennifer Black Hans (Office of the Kentucky Attorney General - by telephone), Staci O’Leary (People Working Cooperatively), Pat Dressman (Campbell County), Laura Pleiman (Boone County), Pete Nienaber (Northern Kentucky Legal Aid), Pam Proctor (Kentucky NEED Project), Bill Lunsford (Department of Energy Development and Independence), Jeremy Faust and Chris Jones (Greater Cincinnati Energy Alliance), and Tim Duff and Trisha Haemmerle (Duke Energy).

<sup>2</sup> The Commercial & Industrial Collaborative members in attendance were: Jennifer Black Hans (Office of the Kentucky Attorney General - by telephone), Staci O’Leary (People Working Cooperatively), Pam Proctor (Kentucky NEED Project), Bill Lunsford (Department of Energy Development and Independence), Pat Dressman (Campbell County), Chris Baker (Kenton County Schools), and Tim Duff and Trisha Haemmerle (Duke Energy).

<sup>3</sup> Application at 2.

Duke Kentucky was subject to three rounds of discovery. There were no intervenors in this proceeding, and the case now stands submitted for a decision based on the evidentiary record.

DUKE KENTUCKY'S DSM PROGRAM PORTFOLIO

Duke Kentucky's DSM portfolio includes the following programs, as approved in Case No. 2014-00280:<sup>4</sup>

1. Low Income Services Program, which includes the Payment Plus Program;
2. Residential Energy Assessments Program;
3. Energy Education Program for Schools;
4. Residential Smart Saver Energy Efficient Residences Program;
5. Residential Smart Saver Energy Efficient Products Program;
6. Smart Saver Prescriptive Program ("Prescriptive");
7. Smart Saver Custom Program ("Custom");
8. Smart Saver Energy Assessments Program;
9. Power Manager Program;
10. PowerShare;
11. Low Income Neighborhood;
12. My Home Energy Report ("MyHER");
13. Appliance Recycling Program ("ARP"); and
14. The Small Business Energy Saver Program.

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<sup>4</sup> Case No 2014-00280, *Application of Duke Energy Kentucky, Inc. to Amend Its Demand-Side Management Programs* (Ky. PSC Jan. 28, 2015).

### COST-EFFECTIVENESS

Duke Kentucky provided in Appendix A of its Application the results of cost-effectiveness tests performed on its individual residential and non-residential DSM programs. The test results showed that all of its residential programs had scores greater than 1, meaning that they are cost-effective, for the Total Resource Cost ("TRC") Test; the majority of programs had scores greater than 1 for the Utility Test and Ratepayer Impact Measure ("RIM"). All Utility Test, TRC Test, RIM, and Participant Test results were greater than 1 for the non-residential programs.

### COSTS AND COST ALLOCATION

Duke Kentucky's residential DSM revenue requirement, including program costs, lost revenues, and financial incentives, is \$11.46 million. The total DSM revenue requirement, including under- and over-recovery from the prior period, is \$18.1 million. Duke Kentucky proposed in its Application to allocate \$11 million to electric operations and \$7.1 million to gas operations. Several of Duke Kentucky's residential DSM programs are applicable to electric customers only, and 100 percent of the cost of those programs is allocated to electric customers, as shown in the cost calculations provided in Appendix B of Duke Kentucky's Application. Duke Kentucky proposed to allocate the cost of residential DSM programs that benefit gas as well as electric customers using its historical methodology based on past saturation of gas space heating as compared to electric, resulting in 63.5 percent of those programs' costs being allocated to gas customers.

Through discovery, Duke Kentucky provided additional information sufficient to show that using the historic saturation of space heating as an allocator no longer captures the magnitude of relative benefits inherent in the programs that produce gas as well as electric savings. In response to Commission Staff's Third Request for Information, ("Staff's Third Request") Duke Kentucky provided calculations showing the effect of using both actual achieved and projected relative load impacts as factors for allocating costs between electric and gas customers as opposed to its current methodology based on 63.5 percent gas space-heating saturation. Duke Kentucky further supplied calculations showing the effect of using current known saturation levels for space and water heating as electric and gas cost allocation factors, as appropriate, for every measure contained in each residential program. Duke Kentucky suggested as an additional option an allocation factor based on British thermal unit ("BTU") savings achieved through its programs. Duke Kentucky indicated that it would be comfortable moving forward with an allocation methodology based on relative load impacts of gas savings as compared to electric savings if the Commission finds such a methodology to be more appropriate.<sup>5</sup> It also stated it believes that projected sales and results should be used for the forecasted portion of the rate calculation, and actual sales and results should be used for the true-up portion of the calculation.<sup>6</sup>

Based on the information in the record of this proceeding, the Commission finds that it is not reasonable to continue to allocate 63.5 percent of the cost of residential DSM programs that offer gas as well as electric benefits to Duke Kentucky's gas

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<sup>5</sup> Response to Commission Staff's Third Request for Information, Item 5.

<sup>6</sup> *Id.*

customers. The gas DSM rates calculated using the existing methodology would lead gas customers to assume, given the level of cost allocated to them, that they could achieve a greater level of DSM savings than is actually achievable for some of the programs. With regard to the Residential Smart Saver program in particular, the existing methodology based on gas versus electric space heating arbitrarily assigns to gas customers costs for measures that have no possible benefit to gas customers. This is especially troubling in that approximately 19,000, or 20 percent, of its gas customers do not also receive electric service from Duke Kentucky, and therefore cannot realize benefits achieved by customers receiving both gas and electric service from Duke Kentucky.

The Commission finds that the allocations and resulting rates included in the spread sheet titled "Page 1 w Act Page 2 w Proj" that was provided in response to Item 5 of Staff's Third Request should be used in the calculation of residential electric and gas DSM rates. Those calculations result in the allocation of \$12.9 million of the \$18.1 million residential DSM revenue requirement to electric operations, and \$5.2 million allocated to gas customers.

### CONCLUSIONS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Duke Kentucky has adequately kept the Commission informed of the progress and status of its DSM programs by timely filing summary status reports on its programs.

2. Duke Kentucky's revised DSM surcharge factors contained in the Appendix to this Order, which are based on its expected level of additional DSM program costs and calculated based on the allocation methodology found reasonable herein, are reasonable and should be approved.

3. Duke Kentucky should continue to allocate the cost of residential DSM program measures between gas and electric customers based on the relative gas and electric load impacts to gas and electric customers, with projected sales and results used for the forecasted portion of the rate calculation. Actual sales and results should be used for the true-up portion of the calculation.

4. Duke Kentucky should continue not to include DSM or EE related costs in base rates.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's proposed DSM programs and associated costs are approved as of the date of this Order.

2. Duke Kentucky's proposed DSM cost allocation and associated rates as included in its Application are denied.

3. The rates contained in the Appendix to this Order are approved as of the date of this Order.

4. Duke Kentucky shall use the methodology found reasonable herein to allocate DSM program costs between gas and electric customers.

5. Duke Kentucky shall continue not to include DSM- or energy-efficiency-related costs in base rates.

6. Within 20 days of the date of this Order, Duke Kentucky shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

By the Commission

ENTERED  
MAY 07 2015  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

Handwritten signature of Stephanie Bell in blue ink, including a stylized 'JD' monogram.

Executive Director

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00388 DATED **MAY 07 2015**

The following rates and charges are prescribed for the customers in the area served by Duke Energy Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

#### Duke Energy Kentucky, Inc. – Electric and 4 more Gas Customers

<u>Rate Schedule Riders</u>	<u>DSM Cost Recovery Rider (DSMR)</u>
<u>Electric Rider DSM</u>	
Residential Rate RS	\$0.005944 per kWh
Distribution Level Rates Part A DS, DP, DT, GS-FL, EH & SP	\$0.001493 per kWh
Transmission Level Rates & Distribution Level Rates Part B TT	\$0.000161 per kWh
Distribution Level Rates Total DS, DP, DT, GS-FL, EH & SP	\$0.001654 per kWh
<u>Gas Rider DSM</u>	
Residential Rate RS	\$0.081352 per Ccf

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