From:	Melnykovych, Andrew (PSC)
To:	"Annie Gilleo"
Subject:	your comments in case number 2017-00097 - Kentucky Power DSM investigation
Date:	Wednesday, December 06, 2017 3:29:00 PM
Attachments:	image002.png image003.png image004.png image005.png

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Dear Ms. Gilleo:

Thank you for your comments on the investigation of Kentucky Power Co. DSM program.

Your comments in the above-referenced matter have been received and will be placed into the case file for the Commission's consideration.

As you noted, the case number in this matter is 2017-00097. It would be helpful if you would please refer to it in any further correspondence.

The application and other documents in this case are available at http://psc.ky.gov/PSC_WebNet/ViewCaseFilings.aspx?case=2017-00097.

Thank you for your interest in this matter.

RECEIVED
By Kentucky PSC at 3:47 pm, Dec 06, 2017

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From: Annie Gilleo [mailto:[redacted]
Sent: Wednesday, November 22, 2017 4:04 PM
To: PSC - Public Information Officer <PSC.Info@ky.gov>
Subject: Public Comment: Case Number 2017-00097

Honorable Chairman Schmitt and fellow Commissioners,

Please see the attached public comments of the American Council for an Energy-Efficient Economy in case number 2017-00097.

Respectfully submitted,

Annie Gilleo
Senior Manager, State Policy

ACEEE
American Council for an Energy-Efficient Economy

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November 22, 2017

Chairman Schmitt
Vice Chairman Cicero
Commissioner Mathews
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Honorable Chairman Schmitt and fellow Commissioners,

The American Council for an Energy-Efficient Economy (ACEEE) welcomes the opportunity to provide comments to the Kentucky Public Service Commission in reference to Case No. 2017-00097. ACEEE is a nonprofit research organization based in Washington, D.C. that conducts research and analysis on energy efficiency. ACEEE is one of the leading groups working on energy efficiency issues in the United States at the national, state, and local levels. We have been active on energy efficiency issues for more than three decades, collecting extensive best-practice information on topics including energy efficiency programs and utility business model design.

Our comments address three issues central to this docket. While we acknowledge that Kentucky Power Company's DSM surcharge has risen dramatically in recent years and is a problem that can and should be addressed by the Commission, we are concerned that the cost-effective energy efficiency programs that provide significant benefits to Kentucky's residents and businesses are being unfairly caught in the crosshairs.

In our comments, we recommend: 1) net lost revenues are not a program cost and therefore the Commission should not consider them in their assessment of the value of energy efficiency programs; 2) that rising costs associated with recovery of lost revenues should be considered separately from approval of energy efficiency programs; 3) that the Commission consider the benefits energy efficiency programs provide to both program participants and non-participants, even in cases where utilities have excess capacity; and 4) the Commission should order Kentucky Power to continue running programs pending a final decision in this case, per the Company's stated preference in its November 15th filing, and avoid sporadic termination of programs in the future. We elaborate on each of these recommendations.

1. **Net lost revenues are not a program cost and should not be included in analysis of the value of energy efficiency programs.**

The Commission states in its November 2nd Order that "the level of spending on DSM programs… has now become a severe financial burden" and that the current circumstances raise questions as to whether residential customers "should be paying higher rates to fund programs that encourage lower consumption when that lower consumption results in recovered fixed costs that will ultimately be charged back to residential customers through higher rates." While we concur that the residential DSM surcharge was high in 2017, we note that this is an issue of lost revenues (specifically the Company's effort to correct for prior undercollection of lost revenues), and not of efficiency program costs. Further, we contend that considering net lost revenues as a cost of an energy efficiency program is a flawed analytical approach. Rather, lost revenues reflect the collection of already authorized utility costs (unrelated to energy efficiency programs), a sum of money a utility would have collected even in the absence of energy efficiency programs.

Lost revenues are not additional or new costs, as the utility would collect these monies whether or not Kentucky Power offers DSM programs. Meanwhile, if the Company does not offer programs in 2018, customers stand to lose significant net benefits (while still paying these revenues), which we outline in section 3 of our comments. Since lost revenues would be collected in either scenario (programs or no programs), they should not be considered in a cost benefit analysis of the programs.

2. **Consider issues of lost revenues separately from those of energy efficiency programs.**

A well-designed lost revenue adjustment mechanism should bring a utility's earnings in line with its revenue requirement. However, ACEEE research has shown that lost-revenue adjustment may cause over-earning if it is not well designed and closely monitored, and if rates are not regularly reset to reflect updated electricity sales forecasts and utility system costs.[1] This approach also does not discourage utilities from promoting higher consumption. In Kentucky, evidence of the potential pitfalls of lost revenue adjustment are clear. According to Kentucky Power filings, the Company recovered $3.4 million in lost revenues in 2016, equivalent to 54% of program expenses. In ACEEE's most recent review of lost revenue adjustment mechanisms, we found median recovery to be equivalent to about 25% of annual program costs – well below the proportion collected by Kentucky Power last year.[2]

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[1] *See* Gilleo, A. et al. 2015. "Valuing Efficiency: A Review of Lost Revenue Adjustment Mechanisms." http://aceee.org/valuing-efficiency-review-lost-revenue-adjustment.

[2] *Ibid.*

The Company's November 15th filing proposes a decrease in the Residential DSM factor of 88% in 2017, even as it maintains current levels of program costs, incentives, and lost revenues. The Company notes that this is due to the fact that "prior under-recovery for the residential programs was recovered by September 2017."[3] The large variance in lost revenue collections from year to year illustrates one potential issue with lost revenue adjustment mechanisms – namely, that inaccurate estimates of lost revenues can lead to unnecessary rate increases for customers. Some states have attempted to address this problem, recognizing that the issue lies not with the efficiency programs themselves but with the lost revenue adjustment mechanism. For example, South Carolina allows utilities to collect lost revenues for three years or the life of the measure, whichever is shorter. Utilities are approved to collect a portion of *estimated* lost revenues, which increases from 75% to 100% over several years. This allows estimates to be recalculated and lost revenues to be trued up as new data becomes available and avoid potential spikes due to inaccurate estimates. The measure life criteria also ensures that utilities do not continue to collect lost revenues for short-lived measures.

We also note that both stakeholders and the Commission can and should act as important checks to lost revenues. However, doing so requires that energy savings are regularly evaluated and reported. Since lost revenues are tied directly to lost sales due to energy savings, it is nearly impossible to judge whether requests for lost revenue recovery are reasonable if they are not trued-up with evaluated net energy savings information. Kentucky Power Company's most recent evaluation, submitted as part of its November 15th filing, examined expenditures and participation, but did not evaluate the energy savings of programs.

It is important for the Commission to closely monitor lost revenue mechanisms. However, in doing so, it is also important to recognize that the design of Kentucky Power's lost revenue adjustment mechanism is wholly separate from its energy efficiency portfolio. Therefore, we suggest that the Commission examine issues of lost revenue separately from issues relating to the suitability and cost-effectiveness of the energy efficiency programs offered by Kentucky Power Company.

3. **The Commission should consider the benefits that energy efficiency provides for all customers, regardless of whether they participate in programs.**

In its November 2nd Order, the Commission notes that it has serious questions as to the benefit of continued spending on energy efficiency, particularly when lower consumption results in higher rates. Above, we addressed the issues associated with lost revenue adjustment

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[3] *See* Kentucky Power Company's Status Report, Motion for Leave to Make the Company's November 15, 2017 DSM Filing in this Case, and Motion for Leave to File Proposed Tariffs Following Approval of 2018 DSM Factors, p. 10

mechanisms, and encouraged the Commission to more fully investigate these issues in the context of Kentucky Power's allowable recovery. Here, we address the Commission's inference that energy efficiency has limited value in a scenario of excess generating capacity. It has been well established that participants in Kentucky Power's efficiency programs receive significant benefits, including direct savings on energy bills, increased comfort, and healthier living conditions.

Whether or not Kentucky Power's customers participate directly in programs, they still receive benefits in the form of reduced utility system costs, including avoided energy, deferred or avoided transmission and distribution investments, avoided operations and maintenance costs, avoided ancillary services (like spinning reserves or power and voltage support), and avoided costs of complying with current or future environmental compliance costs. All of these benefits are delivered through efficiency regardless of excess capacity, and are currently valued in cost-benefit tests in several states. For example, Indiana cost-benefit rules consider avoided costs of spinning reserves, emission allowances, fuel and operations and maintenance.[4] Finally, utility sector programs also increase diversity of resources and reduce risk of fuel and wholesale energy price volatility.

4. **Order Kentucky Power to continue offering programs at current levels pending a final decision in this case, and consider the negative impacts of halting programs sporadically.**

In the Company's November 15th filing, it noted several of the impacts of halting programs for the remainder of 2017. The programs are delivered by eight vendors, including fourteen local individuals. Halting these programs has direct employment impacts on these individuals. In the long term, sporadic cessation of programs may also fracture relationships with the vendors and local contractors, making it difficult to restart programs without significant investments in rebuilding program infrastructure. The Community Action Agencies that deliver low-income efficiency programs have also expressed concerns.

Sporadic stops and starts to efficiency programs also make it difficult for Kentucky Power to maintain trust with customers and maintain or grow participation rates. The Company notes that it has had to cancel 62 home weatherization audits, twelve appliance pick-ups, and eliminate in-store discounts. If customers become skeptical of the availability of the Company's efficiency programs, it could result not only in more limited participation but also in more general customer dissatisfaction.

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[4] *See* Baatz, B. 2015. "Everyone Benefits: Practices and Recommendation for Utility System Benefits of Energy Efficiency." http://aceee.org/sites/default/files/publications/researchreports/u1505.pdf.

We strongly recommend the Commission allow continued implementation of the Company's DSM programs in 2018, and ensure that program implementation is continuous going forward, while also addressing issues with lost revenue adjustment in a separate proceeding. Furthermore, we urge the Commission to consider ways to ramp up, not down, cost-effective programs in the future. Our research suggests that there is significant room to do so. In 2017, Kentucky ranked 29th among states in terms of energy savings delivered to utility customers.[5] Statewide, electricity savings were about 20% below the national median. Neighboring states including Ohio and Illinois save about two to two-and-a-half times as much electricity relative to total retail sales in 2016 through efficiency programs delivered by utilities. These programs generated not only cost savings for customers in these states, but also benefits ranging from healthier homes and improved comfort to local job creation.

Respectfully submitted,

Annie Gilleo
Senior Manager, State Policy
ACEEE

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[5] *See* Berg, W. et. al. 2017. "The 2017 State Energy Efficiency Scorecard." http://aceee.org/research-report/u1710.

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