COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC ANNUAL COST RECOVERY FILING FOR DEMAND SIDE MANAGEMENT BY DUKE ENERGY KENTUCKY, INC.	)))	CASE NO. 2018-00370

ORDER

On November 15, 2018, Duke Energy Kentucky, Inc. (Duke Kentucky), electronically filed its Annual Status Report, Adjustment of the Demand-Side Management (DSM) Cost Recovery Mechanism, and Amended Tariff Sheets for Gas Rider DSMR and Electric Rider DSMR with an effective date of December 15, 2018 (Application). According to the Application, Duke Kentucky met with the Residential Collaborative[1] and the Commercial and Industrial Collaborative,[2] and with the exception of the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), the members in attendance had no objection to the Application.

On December 13, 2018, the Commission entered an Order finding that an investigation was necessary to determine the reasonableness of the proposed tariffs and suspended the tariffs for one day, to be effective subject to change on December 16, 2018, and established a procedural schedule to review the reasonableness of the

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[1] The Residential Collaborative members in attendance were: Kent Chandler (Attorney General), Jock Pitts (People Working Cooperatively), Laura Pleirman (Boone County), Kurt Krahn (Northern Kentucky Community Action), and Tim Duff and Trisha Haemmerle (Duke Energy).

[2] The Commercial & Industrial Collaborative members in attendance were: Kent Chandler (Attorney General), Jock Pitts (People Working Cooperatively), Kenya Stump (Department of Energy Development and Independence), and Tim Duff and Trisha Haemmerle (Duke Energy).

proposed tariffs. On April 9, 2019, the Commission, on its own motion, incorporated by reference the record of Case No. 2018-00261 into the record of this proceeding.[3] On April 25, 2019, the Attorney General filed a motion to intervene out of time, and on May 1, 2019, the Commission granted the motion. On May 16, 2019, an Order was entered scheduling a hearing to be held on July 31, 2019. Duke filed a motion on May 31, 2019, to schedule an Informal Conference (IC) to discuss the scope of the July 31, 2019 hearing and to review any other matters that may assist in the facilitation of the instant case and the upcoming hearing. Pursuant to an Order entered on June 4, 2019, an IC was conducted on June 6, 2019.

On July 2, 2019, Duke Kentucky filed a motion to amend its pending DSM application by revising the terms, conditions, and rates of its Home Energy Assistance (HEA) program along with supporting testimony and a revised HEA tariff effective August 1, 2019, which increases the HEA rate from 10 cents per meter to 20 cents per meter for residential customers. On July 9, 2019, the Attorney General filed a motion to suspend and investigate Duke Kentucky's proposed HEA amendment and to grant him the opportunity to file a response to Duke Kentucky's motion to amend at the conclusion of the proceeding. The Commission responded on July 11, 2019, and found that an investigation was necessary in order to determine whether good cause existed to grant the motion to amend and, if good cause is found, to determine the reasonableness of the proposed tariffs. The Commission further found that an investigation could not be completed by August 1, 2019, and, pursuant to KRS 278.190(2), suspended the effective

[3] Case No. 2018-00261, *Electronic Application of Duke Energy Kentucky, Inc. for Authority to 1) Adjust Natural Gas Rates 2) Approval of a Decoupling Mechanism 3) Approval of New Tariffs 4) and for All Other Required Approvals, Waivers, and Relief* (Ky. PSC Mar. 27, 2019).

date of the proposed HEA rates for five months, up to and including December 31, 2019. A hearing was held at the Commission's offices on July 31, 2019. During the proceeding, Duke Kentucky responded to three rounds of discovery from Commission Staff, one round of discovery from the Attorney General, and one round of post-hearing data requests from both Commission Staff and the Attorney General. The case now stands submitted for a decision based on the evidentiary record.

DUKE KENTUCKY DSM PROGRAM PORTFOLIO[4]

Duke Kentucky's DSM portfolio, for which costs are recoverable through the DSM Cost Recovery Rider mechanism, includes the following programs through June 30, 2018:[5]

1. Residential Smart Saver Energy Efficient Residences Program
2. Residential Smart Saver Energy Efficient Products Program
3. Residential Energy Assessments Program
4. Energy Efficiency Education Program for Schools Program
5. Low Income Services Program
6. Residential Direct Loan Control – Power Manager Program
7. Smart Saver Prescriptive Program
8. Smart Saver Custom Program
9. Smart Saver Energy Assessments Program
10. Peak Load Manager (Rider PLM) – PowerShare Program
11. Low Income Neighborhood Program

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[4] Application, paragraph 15.

[5] This Application serves as the annual true-up of the fiscal year ended June 30, 2018, and therefore covers the portfolio of programs in effect July 1, 2017, through June 30, 2018.

12. My Home Energy Report (MyHER) Program

13. Small Business Energy Saver Program

14. Pay for Performance

15. Power Manager for Business

The Application contained brief descriptions of each current program, a review of the current status of each program, and information on any changes made to the programs.[6]

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, with the exception of the Low Income Services Program, two Non-Residential Smart Saver Programs, and Power Manager for Business, the programs are cost-effective, with scores greater than 1 for the Total Resource Cost Test.

Costs and Cost Allocation[7]

Duke Kentucky's DSM revenue requirement, including projected July 1, 2019–June 30, 2020 program costs, lost revenues and financial incentives, is $10.455 million. This level of expenditure, along with under- and over-recoveries from the prior period, results in a total DSM revenue requirement of $10.717 million, of which $11.786 million is allocated to electric operations and ($1.070 million) is allocated to gas operations. The

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[6] Subsequent to the fiscal year ending July 30, 2018, the Commission issued an order in Case No. 2017-00427, *Electronic Annual Cost Recovery Filing for Demand Side Management by Duke Energy Kentucky, Inc.* (Ky. PSC Sept. 13, 2018) revising Duke Kentucky's DSM programs.

[7] Application, Appendix B at 5.

$10.717 million net amount allocated to electric operations consists of $1.376 million under-recovery from the prior period and $10.410 million of expected DSM program costs.

For the gas operations, the ($1.070 million) net amount allocated consists of only the over-recovery from the prior period due to Duke Kentucky's proposal to eliminate allocating ongoing DSM costs to gas operations.[8] Duke Kentucky suggested the elimination because the only opportunity for gas customer participation in future DSM programs following the final order in Case No, 2017-00427 is in low-income qualified programs, which results in limited expenses.[9] The Commission finds that Duke Kentucky's proposal does not support cost causation. The DSM rates are designed so that each rate class pays its portion based on expenses related to each rate class and the Commission finds that this policy should continue to properly reflect cost causation between the gas and electric operations. Even though the ongoing DSM gas costs are limited, those costs should continue to be allocated to gas customers.

Revising the $10.717 million total DSM requirement results in allocations of $11.426 million to electric operations and ($0.709) to gas operations. The $11.426 million net amount allocated to electric operations consists of $1.377 million under-recovery from the prior period and $10.049 of expected DSM program costs. The ($0.709) million net allocated to gas operations consists of a $1.070 million over-recovery from the prior period and $0.361 million of expected DSM program costs.[10] The impact of this reallocation reduces the credit from ($0.018491) per Ccf to ($0.012250) per Ccf for

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[8] Application, paragraph 130.

[9] Duke Kentucky's Response to Staff's First Request for Information, Item 9.

[10] *Id.*, Attachment – Revised Appendix B, page 5 of 7.

residential gas customers and increases the credit from ($0.000061) per kWh to ($0.000312) per kWh for residential electric customers.[11] Due to the fact that the Commission allowed Duke Kentucky's proposed rates to become effective subject to change, Duke Kentucky should address the over- or under-collection in its Annual Cost Recovery Filing to be filed November 15, 2019.

HEA PROGRAM

The current HEA program was first approved in 2006 in Case No. 2005-00402[12] and most recently, in Case No. 2017-00189,[13] where the Commission approved continuing the program through December 31, 2020. For the period of July 2017–June 2018, a total of $261,389 in HEA funds was collected from Duke Kentucky customers,[14] and 1,016 customers received assistance. Of the HEA funds collected, $214,094 was disbursed to qualifying customers while $27,925 was expended on administrative costs.[15] Administered by the Northern Kentucky Community Action Council (NKCAC), the HEA Program provides funds to Duke Kentucky customers with an income level of up to 150 percent of the federal poverty guidelines when federal Low-Income Home Energy Assistance (LIHEAP) and WinterCare[16] assistance funds have been depleted.[17] The

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[11] *Id.*

[12] Case No. 2005-00402, *Annual Cost Recovery Filing for Demand Side Management by the Union Light, Heat and Power Company* (Ky. PSC Jan. 31, 2006).

[13] Case No. 2017-00189, *Electronic Application of Duke Energy Kentucky, Inc. to Continue Home Energy Assistance Program* (Ky. PSC June 21, 2017).

[14] $151,925 was collected from electric and $109,473 from gas.

[15] Application, paragraph 125.

[16] WinterCare is a crisis program to which Duke Kentucky contributes $25,000 of shareholder funds and matches up to $25,000 of customer donations.

HEA program is funded by a $0.10 per meter per month charge for Duke Kentucky residential electric and gas customers, and the assistance period is July 1 to June 30 fiscal year during which an eligible customer may receive up to $300 per assistance period.[18] Currently, HEA receipts and expenses are reconciled through the annual DSM reconciliation filing and any over or under-recoveries are charged or returned to residential customers.

Duke Kentucky's proposed HEA program amendment includes the following:[19]

- An increase to the monthly per meter charge to $0.20 for residential electric and gas customers

- Provide $50,000 per year of shareholder funds for pre-weatherization/safety-related improvements for qualifying customers

- Contribute $50,000 of shareholder funds towards the HEA program

- Eliminate the one-time crisis-based assistance of up to $300 and provide the following:

- For electric only or electric and natural gas customers, provide an ongoing monthly assistance of up to $99 per month during the months of June, July, August, September, December, January, and February

- For natural gas only customers, provide ongoing monthly assistance of up to $231 per month during the months of December, January and February

- Allow for a carry-over balance process for any unspent HEA dollars

- Reduce the administrative cost charged by the NKCAC from 15 percent of the program funds distributed to the lessor of actual costs to administer or 10 percent of the funds distributed as stated in a revised Memorandum of Understanding (MOU) between Duke Kentucky and NKCAC

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[17] Motion of Duke Energy Kentucky, Inc. to Amend Its HEA Program, Direct Testimony of Cindy Givens (Given's Testimony) at 4.

[18] *Id.*

[19] *Id.* at 5–6.

Duke Kentucky states that the proposed amendment will allow the HEA program to evolve from the current crisis-based program to an ongoing monthly bill subsidy.[20] NKCAC will continue to administer the program and perform income qualification checks. Duke Kentucky foresees the proposed HEA program as being available on a first-come, first-serve basis until it is fully subscribed, with NKCAC then creating a "wait list" for customers who may qualify but cannot receive funds due to the program being fully subscribed.[21] Duke Kentucky will also continue to file annual progress reports for the HEA program with its annual DSM filings.

Duke Kentucky's Comments

In its Post-Hearing Brief, Duke Kentucky asserts that the proposed HEA Program is "not just an incremental improvement in the existing program, but rather a significant leap forward."[22] Duke Kentucky avers that the benefits include[23]:

- A larger pool of funds;
- Increased administrative efficiencies;
- A reduction of administrative charges;
- Administration based on a written MOU with NKCAC;
- Increased oversight;
- Marketing to increase customer awareness;
- Increased interactions between Duke Kentucky customer service professionals and NKCAC screeners;

[20] *Id.* at 7.

[21] *Id.* at 8.

[22] Duke Kentucky Inc.'s Brief at 3.

[23] *Id.* at 3–4.

- Allowing for the roll-over of funds;
- Removal of barriers to customers from using weatherization funds;
- An overall increase to the monthly benefit to qualifying customers;
- Movement of the program from a crisis benefit to a bill subsidy; and
- Reduction in the number of annual disconnections.

Attorney General's Response

The Attorney General notes Duke Kentucky's argument that the proposal "is a significant improvement over its existing program and will better serve the Company's income-eligible customers without imposing a significant burden on other customers" and agrees that it is a significant improvement over its current HEA offering.[24] However, the Attorney General asserts that the HEA proposal should be considered a starting point, not a conclusion as there are still unresolved issues such as clarity for what items the funds can or cannot be used, communication between Duke Kentucky and NKCAC, and questions surrounding barriers to customer participation.[25] The Attorney General cites to a recent Order wherein the Commission noted its intent to initiate an administrative case to review all investor-owned utility low-income assistance programs, stating an expectation of further Commission review and scrutiny of the HEA proposal, and offering comments for the Commission to ponder regarding HEA programs in general and Duke Kentucky's proposal in particular.[26] The Attorney General recommended that the Commission approve Duke Kentucky's proposal.

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[24] Attorney General's Response to Duke Energy Kentucky's, Inc.'s Brief at 1.

[25] *Id.*

[26] *Id.* at 2.

NKCAC Comments

NKCAC offered comments regarding the proposed HEA amendments stating that it worked with Duke Kentucky with the goal to better serve its clients and to align the program with the recommendations from Community Action Kentucky.[27] The NKCAC also pointed out that it agrees with the Commission that HEA programs should not require participants to apply for weatherization or other services, and updated its conditions accordingly.[28] NKCAC states that the proposed HEA adjustments, if approved, will allow a family to budget more effectively and have fewer crisis situations, that the program is highly valuable to those it serves, and that NKCAC's commitment to continue administering the program is exemplified by the voluntary reduction of the administrative fee to 10 percent.[29] The NKCAC recommends that the Commission approve Duke Kentucky's proposal.

Duke Kentucky's Reply Brief

In its reply brief, Duke Kentucky responds to the Attorney General's comments that the proposed HEA amendment is an improvement and should be approved, as well as NKCAC's comments that the proposal should be approved.[30] Duke Kentucky also references the final order in Case No. 2019-00245[31] and notes the Commission's stated

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[27] NKCAC Comments at 1.

[28] *Id.*

[29] *Id.* at 1–2.

[30] Duke Kentucky's Reply Brief at 1.

[31] Case No. 2019-00245, *Electronic Application of Kentucky Power Company to: 1) Modify Kentucky Power's Residential Energy Assistance Program; 2) Approve the Amended Operating Agreement; and 3) Grant All Other Relief to Which If May Be Entitled* (Ky. PSC Sept. 11, 2019).

intent to initiate an administrative case in which all low-income assistance programs will be reviewed in order to achieve uniformity.[32] Regardless of the Commission's intentions to initiate an administrative case, Duke Kentucky still asserts that the proposed HEA program will benefit customers and should be approved, as described in its initial brief.[33] Duke Kentucky concludes by stating that it welcomes the opportunity to discuss further HEA modifications in the forthcoming administrative case and believes that the administrative case will be a suitable setting to address the Attorney General's comments regarding HEA programs.[34]

DISCUSSION AND FINDINGS

As noted in the September 11, 2019 Order in Case No. 2019-00245, over the past few years the Commission has analyzed low-income bill payment assistance programs offered by investor-owned utilities, which vary considerably in terms of program eligibility, assistance provided, and administrative efficiency. That Order also noted that since 2018, the Commission has been exploring a way to transform low-income assistance programs to make them uniform across the Commonwealth and more beneficial to low-income customers. As referred to by both Duke Kentucky and the Attorney General, the decision in Case No. 2019-00245 states that the Commission intends to initiate an administrative case in which all low-income assistance programs operated by investor-owned utilities will be examined in order to achieve uniformity in benefits and enable better access to these programs by low-income ratepayers. Based on this intent, the

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[32] Duke Kentucky's Reply Brief at 1–2.

[33] *Id.* at 2.

[34] *Id.* at 2.

Commission now finds that Duke Kentucky's proposed HEA program should be denied. The Commission concludes that the change in the HEA program for the upcoming year, followed by the possibility of additional changes at the conclusion of the administrative case, will cause confusion amongst the HEA participants and result in administrative inefficiencies. For these reasons, the Commission finds that good cause has not been shown to grant Duke Kentucky's motion for authority to amend its DSM application by revising the terms, conditions, and rates of its HEA program.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's proposed amendment to its DSM application to revise the terms, conditions, and rates of its HEA program and the associated proposed residential electric and gas tariff sheets are denied.

2. Duke Kentucky's DSM programs and associated costs as originally filed and as modified in the findings above to revise the costs allocated to gas customers are approved on and after the date of this Order.

3. Duke Kentucky's proposed Tariff Sheets for Electric DSMR and Gas Rider DSMR are denied.

4. The rates set forth in the Appendix to the Order are approved for service on and after the date of this Order.

5. Duke Kentucky shall continue to file a DSM application annually by August 15 containing an analysis of the impact of DSM changes on its electric and gas customers' bills, detailed evaluations of the cost-effectiveness of its existing programs, and any proposed revisions to programs in light of the attendant cost burdens to the residential and commercial classes.

6. Duke Kentucky's Annual Cost Recovery Filing to be filed November 15, 2019, shall address the over- or under-collection of DSM costs resulting from the implementation of its proposed rates on June 7, 2019.

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

8. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED

OCT 02 2019

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00370 DATED OCT 0 2 2019

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 the authority of this Commission prior to the effective date of this Order.

Duke Energy Kentucky, Inc. – Electric and Gas Customers

Electric Rider DSM

Residential Rate	($0.00312) per kWh
Non-Residential Distribution	$0.005024 per kWh
Non-Residential Transmission	$0.000637 per kWh

Gas Rider DSM

Residential Rate	($0.012250) per Ccf

Customer Charge for HEA Program

Electric Residential Rate	$0.10 per meter
Gas Residential Rate	$0.10 per meter

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