

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JACKSON ENERGY	)	
COOPERATIVE CORPORATION FOR AN	)	CASE NO.
ORDER APPROVING KY ENERGY RETROFIT	)	2013-00398
RIDER PERMANENT TARIFF	)	

ORDER

On November 12, 2013, Jackson Energy Cooperative Corporation (“Jackson Energy”) filed an application to establish a permanent on-bill financing program and requesting that Case No. 2010-00089<sup>1</sup> and the periodic reports submitted semi-annually pursuant to that case be incorporated by reference into this proceeding. In addition, Jackson Energy requests “that the Commission issue an Order as soon as possible approving the continuance of the current pilot program until a Final Order is granted in this case. . . .”<sup>2</sup> In Case No. 2010-00089, Big Sandy Rural Electric Cooperative Corporation (“Big Sandy”), Fleming-Mason Energy Cooperative, Inc. (“Fleming-Mason”), Grayson Rural Electric Cooperative Corporation (“Grayson”), and Jackson Energy (collectively the “Pilot Participants”) partnered with the Mountain Association for

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<sup>1</sup> Case No. 2010-00089, Joint Application of Big Sandy Rural Electric Cooperative Corporation, Fleming Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corporation, and Jackson Energy Cooperative for an Order Approving an On-Bill Financing Pilot Program Titled the KY Energy Retrofit Rider” (Ky. PSC Dec. 16, 2010).

<sup>2</sup> Application, filed Nov. 12, 2013, p. 8.

Community Economic Development (“MACED”)<sup>3</sup> to operate and fund the pilot program, known as the KY Energy Retrofit Rider (“KER Rider”). The program was approved on a pilot basis for two years, and each of the four cooperatives filed tariffs to implement the pilot program.

On November 2, 2012, in Case No. 2012-00484,<sup>4</sup> Big Sandy, Fleming-Mason, and Grayson filed a joint application requesting Commission approval of a permanent on-bill financing program for each of their respective cooperatives and further requested a continuance of the existing pilot program that was approved in Case No. 2010-00089. An Order was issued in Case No. 2012-00484 on November 19, 2012, that approved the request of all the Pilot Participants except Jackson Energy for continuance of their respective pilot programs during the Commission’s investigation of the matter. Because Jackson Energy did not join the other Pilot Participants in requesting an extension of its two-year pilot program that had been approved in Case No. 2010-00089, its on-bill financing pilot program expired by operation of law on December 16, 2012.

Jackson Energy’s proposed tariff sheets have an effective date of December 13, 2013. Jackson Energy has not proposed new rates but has requested that its pilot program approved in Case No. 2010-00089 be approved as a permanent program. Also, Jackson Energy has requested that its current pilot program be continued until a

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<sup>3</sup> MACED is a non-profit corporation whose mission is to provide comprehensive community development support to Appalachian communities by enhancing employment and living conditions in the area. MACED’s major programs consist of business development, sustainable forestry, energy efficiency, and public policy research and education.

<sup>4</sup> Case No. 2012-00484, Joint Application of Big Sandy Rural Electric Cooperative Corp., Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corp. for an Order Approving KY Energy Retrofit Rider Permanent Tariff (Ky. PSC Aug. 26, 2013).

Final Order is issued in this case. Therefore, pursuant to KRS 278.190(2), the Commission suspended the effective date of the proposed tariffs for one day, from December 13, 2013 until December 14, 2013. Commission Staff issued one round of requests for information. There are no intervenors in this proceeding.

### DISCUSSION

The KER Rider is a voluntary program available to Jackson Energy's qualifying residential and commercial/small industrial customers. Customers pay for energy-efficiency retrofits from the savings produced by the retrofits on the customer's electric bill.<sup>5</sup> Jackson Energy states that retrofit costs are capped at 90 percent of the estimated savings so that customers' bills will be smaller, on average, than they were before making the efficiency improvements.<sup>6</sup> The Retrofit Project Charge appears as a separate line item on the bills of those customers participating in the program.

Jackson Energy and/or its agent will: (1) market and administer the program; (2) prequalify eligible locations; (3) perform energy audits to produce conservation plans; (4) certify and maintain a list of contractors, and arrange for a certified contractor to install retrofit measures; (5) act as the customer's representative in verifying suitability of proposed retrofits, estimated savings, satisfactory installation of retrofit measures, and evaluating ongoing performance or need for repair of measures; (6) file Uniform Commercial Code ("UCC") disclosures with the county clerk for each location; and (7) disclose pre-existing retrofit investment benefits and costs to new customers.<sup>7</sup>

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<sup>5</sup> Application, ¶ 12, p. 5.

<sup>6</sup> *Id.*, at p. 5.

<sup>7</sup> *Id.*, Exhibit A – Proposed KER Rider, P.S.C. No. 5, 1<sup>st</sup> Revised Sheet Nos. 31-32.

Jackson Energy included with its application, and provided in response to Staff requests for information, various types of information concerning customer participation in its program. Since the December 16, 2010 approval of its KER Rider pilot program, Jackson Energy, along with MACED, has conducted 86 assessments resulting in 54 completed retrofit projects across its program. This reflects a conversion rate of 63 percent, a rate above the average conversion rate of similar on-bill financing projects in other states. Normalizing data to remove weather as a variable, the average participant has reduced usage by 18 percent after participating in the program. On average, each retrofit project cost \$7,872 to complete. With financing covering \$5,556 of the average project cost, the total amount financed is \$300,033. The average energy cost savings per home is \$599 annually, while the average monthly Retrofit Project Charge is \$38. Jackson Energy states that 58 percent of participating customers self-identify as low-to-moderate income households.<sup>8</sup>

Jackson Energy states that, to date, no participating locations are inactive, but if this becomes the case, repayment would be suspended in accordance with the program guidelines. When utility service resumes at the property, the Retrofit Project Charge would resume as part of the normal utility billing. In a few cases, participating locations have significant damage from a fire or natural disaster, but electric service has remained current, resulting in no interruption in the repayment of the Retrofit Project

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<sup>8</sup> *Id.*, ¶ 7, p. 3.

Charge.<sup>9</sup> Jackson Energy has received no complaints from participants in the KER Rider pilot program.<sup>10</sup>

In implementing the pilot program, Jackson Energy has not hired additional staff nor incurred substantive additional administrative costs as a result of the program. Some additional accounting costs incurred by Jackson Energy have been, to date, adequately covered by the existing project management fee calculated as part of the Retrofit Project Charge. Initial training costs associated with attaining Building Performance Institute Certification were reimbursed by funding made available through the Kentucky Home Performance Program. Jackson Energy states that, because the program does not have additional expenses associated with implementation, no additional costs are passed on to its customers as a result of the KER Rider.<sup>11</sup>

Participating residential customers select one from among three general groups of measures: (1) insulation improvements; (2) air sealing; and (3) improvements in heating, cooling, and ventilation equipment. Commercial/small industrial accounts also have these options, plus an option for lighting improvements and upgrades.<sup>12</sup>

MACED has provided the initial funding for data infrastructure administration and implementation, program design, and coordination. MACED will continue to support a common data infrastructure to pool program data and measurements of key variables

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<sup>9</sup> *Id.*, ¶ 9, p. 4, and the Response to Commission Staff's First Request for Information ("Staff's First Request"), Item 7, filed Jan. 27, 2014.

<sup>10</sup> Response to Staff's First Request, Item 15.

<sup>11</sup> Application, ¶ 8, pp. 3-4

<sup>12</sup> Response to Staff's First Request, Item 9, first [unnumbered] page – How Your Home Could Save Energy; Application, Exhibit A – Proposed KER Rider, P.S.C. No. 5, 1<sup>st</sup> Revised Sheet No. 34; and Case No. 2010-00089, Joint Application of Big Sandy, et al. (Ky PSC Dec. 16, 2010), Final Order, p. 3.

to streamline program evaluation and highlight opportunities for design improvement.<sup>13</sup> The capital for the investments by MACED will continue to come from \$2 million it has received from private foundations and the U.S. Department of Treasury Community Development Finance Institution ("CDFI") Fund.<sup>14</sup> To date, MACED has raised more than \$1 million to cover the operating expenses associated with conducting the KER Rider pilot program funding, which it obtained from a mix of grants from private foundations and state agencies. Jackson Energy further stated that MACED will continue to seek outside funding sources and will also institute a schedule of fees for the services provided under the KER Rider program to assist with the long-term sustainability of the program.<sup>15</sup>

The KER Rider has been designed to reduce financial risks at all stages of development. The risk associated with the KER Rider would be an event in which a customer defaults on loan payments, the location of the retrofit investment remains inactive, and the ownership of the property does not change. Jackson Energy intends to participate in a Risk Mitigation Fund ("Mitigation Fund") administered by MACED and the other Pilot Participants who now offer the KER Rider on a permanent basis to their customers. Those cooperatives and MACED have implemented the Mitigation Fund which was funded by MACED with an original amount of \$50,000 acquired through Department of Energy Development and Independence/Tennessee Valley Authority

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<sup>13</sup> Application, ¶ 15, p. 6.

<sup>14</sup> Id., ¶ 14, p. 6. The \$2 million of investment funds are to be used by Jackson Energy and the other Pilot Participants.

<sup>15</sup> Response to Staff's First Request, Item 10.

settlement funds.<sup>16</sup> Four percent of the project fee will be contributed to the Mitigation Fund on new How\$mart<sup>17</sup> loans from now on. This percentage was agreed upon by Jackson Energy, the other Pilot Participants and MACED, and will be reviewed periodically. Based on loss experience, it is expected to be adjusted downward in the future.<sup>18</sup> To properly monitor the effectiveness of the fund, Jackson Energy should notify the Commission by letter if the balance in the fund falls below \$10,000, consistent with the requirement in the Final Order in Case No. 2012-00484.<sup>19</sup>

Jackson Energy proposes that the annual interest rate used to calculate the Retrofit Project Charge be no more than that of the cost of the capital pool used to finance the investment, not the cost of its long-term debt used for other purposes. Jackson Energy also proposes that the investment be tied to the physical location and not to an account that is tied to an individual.<sup>20</sup> Jackson Energy states that the fundamental concept of this program is to increase the energy efficiency of the physical structures with retrofits that will have a useful life of 15 years or more, with the underlying premise that the occupant of the structure will receive the benefit of the retrofit with lower electric bills for as long as he/she occupies the structure. In most cases, a customer's intent to remain at the location is not a requirement to qualify for

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<sup>16</sup> Response to Staff's First Request, part b. of Item 12. To date, there have been no losses submitted for mitigation.

<sup>17</sup> MACED website: <http://www.maced.org/howsmart-overview.htm>

<sup>18</sup> Response to Staff's First Request, part c. of Item 12.

<sup>19</sup> Case No. 2012-00484, Joint Application of Big Sandy, et al. (Ky. PSC Aug. 26, 2013), p. 6.

<sup>20</sup> Application, ¶ 11, pp. 4-5.

the program. Jackson Energy believes it is important to make the distinction that the investment is tied to the location rather than to the original applicant.<sup>21</sup>

Jackson Energy proposed to remove a reference from its pilot KER Rider approved in Case No. 2010-00089 that stated "Premises in which Retrofit measures will be installed must be permanently anchored to a foundation."<sup>22</sup> Jackson Energy added to the proposed KER Rider the following language, "however if tax credits can only be applied for by the Customer, the Customer shall retain eligibility."<sup>23</sup> These changes are consistent with those approved for the other Pilot Participants in Case No. 2012-00484.

### FINDINGS

The Commission finds that Jackson Energy's proposed permanent KER Rider, including the Mitigation Fund and the modifications to the existing pilot KER Rider, is reasonable and should be approved. Jackson Energy should continue to partner with MACED in the operation of the program.

IT IS THEREFORE ORDERED that:

1. Jackson Energy's proposed KER Rider, including the implementation of a Risk Management Fund and modifications to the pilot KER Rider, is approved on a permanent basis as proposed.

2. Jackson Energy shall, within ten days of such an occurrence, notify the Commission if the balance remaining in the Risk Mitigation Fund falls below \$10,000.

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<sup>21</sup> Response to Staff's First Request, Item 7.a.

<sup>22</sup> Application, Exhibit B, P.S.C. NO. 5, Original Sheet No. 34, ¶ 1 under OTHER.

<sup>23</sup> *Id.*, ¶ 2.

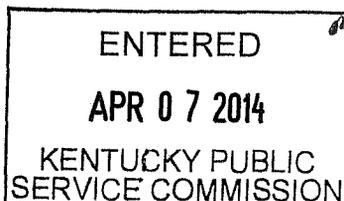
3. Beginning June 30, 2014, and by March 31 of each year thereafter, Jackson Energy shall file with the Commission an annual status report relating to the KER Rider. The status reports shall provide responses to the information listed in the Appendix to this Order.

4. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by Ordering paragraph No. 3 upon Jackson Energy's showing of good cause for such extension.

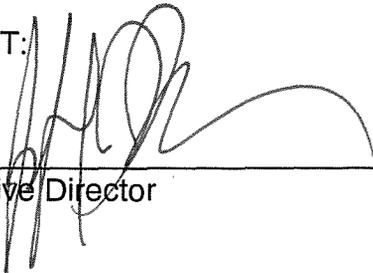
5. Within 20 days of the date of this Order, Jackson Energy shall file with the Commission, using the Commission's electronic Tariff Filing System, its KER Rider tariff sheets showing the date of issue and that it was issued by authority of this Order. Jackson Energy shall ensure that the copies of tariff sheets submitted are complete in their text.

6. Any documents filed pursuant to ordering paragraphs 2 and 3 of this Order shall reference the number of this case and shall be retained in Jackson Energy's respective general correspondence files.

By the Commission



ATTEST:

  
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Executive Director

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2013-00398 DATED **APR 07 2014**

Beginning June 30, 2014, and by March 31 of each year thereafter, Jackson Energy shall file a Status Report containing the following information for the preceding calendar year:

1. Number of homes that have completed an energy assessment during the preceding calendar year and for the retrofit program to date.
2. Number of homes that have completed a retrofit during the preceding calendar year and for the program to date.
3. Number of new participants during the preceding calendar year and for the program to date.
4. Average monthly payment during the preceding calendar year and for the program to date.
5. Average monthly estimated savings in dollars during the preceding calendar year and for the program to date.
6. To the extent available for each project during the preceding calendar year, the actual monthly savings in kWh usage compared to the estimated monthly savings.
7. A list of each account that became inactive during the preceding calendar year, including:
  - a. The reason the account became inactive (non-payment, residence destroyed, etc.);
  - b. The amount of the unpaid liability; and

c. Whether the account became active again during the preceding calendar year, and if so when it became active.

8. If applicable, documentation of any and all issues or complaints reported by participating on-bill financing customers during the preceding calendar year and how each issue was resolved.

9. A list of independent contractors qualified to participate in the program.

10. A schedule of all fees charged by MACED for the services provided under the KER program.

11. The balance remaining in the Risk Mitigation Fund as of December 31 of the preceding calendar year.

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