

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR THE ASSUMPTION OF)	
SECURITIES BY GRAYSON RURAL ELECTRIC)	CASE NO. 99-412
COOPERATIVE CORPORATION)	

O R D E R

On December 14, 1999, Grayson Rural Electric Cooperative Corporation (“Grayson”) filed an application seeking authorization to guarantee the financing by local banks of geothermal heat pump (“geothermal”) systems and Electric Thermal Storage (“ETS”) units purchased and installed in members’ homes.¹ An informal conference was held at the Commission’s offices on January 25, 2000 in order to clarify information contained in Grayson’s application. All information requested from Grayson at the informal conference has been provided.

Grayson indicates that the promotion of the geothermal and ETS alternatives was related to the efforts of its generation and transmission cooperative, East Kentucky Power Cooperative, Inc. (“East Kentucky”), in developing demand-side management (“DSM”) options for its member cooperatives. Grayson notes that a neighboring investor-owned utility has been promoting similar DSM-related programs. Grayson also states that East Kentucky has done extensive research related to the use of geothermal

¹ Grayson submitted its application on September 24, 1999; however, there were numerous filing deficiencies. Grayson submitted additional information to correct the deficiencies on November 12, 1999 and December 14, 1999. The Commission notified Grayson by letter on January 5, 2000, that all filing deficiencies were corrected, and the application was considered filed as of December 14, 1999.

systems and ETS units, provides this information to the member cooperatives, and shares in the cost of promoting these alternatives.

Grayson started its loan guarantee program in 1995. Grayson, in conjunction with two local banks, guaranteed payment to the banks on loans for geothermal systems and ETS units. The Commission became aware of this loan guarantee program during Grayson's last general rate case, Case No. 98-455.² In the July 8, 1999 Order in that case, the Commission found that Grayson's loan guarantee program had not been approved as required by KRS 278.300(1),³ and directed Grayson to suspend the program until such time as it received authorization from the Commission to guarantee these loans.⁴

In its arrangements with the local participating banks, Grayson indicated that it was only interested in guaranteeing those loans which the banks were willing to make based upon the banks' own evaluation of the borrower's credit. The banks process the financing applications and do all financial evaluations. The loan term and applicable interest rates are specified in the guaranty agreements that Grayson signs. Grayson will guarantee geothermal system loans up to \$5,000 and ETS unit loans up to \$1,000. Grayson provided a schedule showing that since the beginning of this program, it has guaranteed geothermal system and ETS units loans with a total face value of

² Case No. 98-455, Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates, final Order issued July 8, 1999.

³ KRS 278.300(1) states "No utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized so to do by order of the commission."

⁴ Case No. 98-455, July 8, 1999 Order, at 18 and 27.

\$187,124.⁵ Since the inception of the program, Grayson has paid one loan that was in default, and has negotiated a payment schedule with the defaulting member.

Grayson's board of directors has authorized both the loan guarantee program and the guarantee with each participating bank. Under this arrangement, the board of directors does not have to review and approve each loan guaranteed by Grayson. In conjunction with the loan guarantee program, Grayson performs an energy audit of the member's residence. Grayson will only guarantee loans where certified dealers have been used to install the geothermal or ETS equipment. Grayson has certified a group of dealers in its service territory who are qualified to install this equipment. The results of the energy audit, the specifics of the geothermal system or ETS unit installed, and a certificate of compliance are retained by Grayson for each loan guarantee.

After consideration of the evidence of record and being advised, the Commission finds that Grayson's request to authorize its loan guarantee program for geothermal systems and ETS units should be approved. Geothermal systems and ETS units constitute viable DSM alternatives, and it is appropriate for Grayson to encourage the use of such technologies. In structuring its loan guarantee program, Grayson has taken reasonable precautions to limit its potential exposure in the event of default by its members on these loans. The guarantee is limited to either \$1,000 or \$5,000, depending on the equipment involved, and Grayson has stated its reliance on the participating bank's evaluation of the member's credit-worthiness. Grayson has also

⁵ Information Requested at the January 25, 2000 Informal Conference, filed February 4, 2000, Tab 1. The \$187,124 represents the total amount of the loans, and not Grayson's potential exposure in the event of default.

taken steps to ensure the quality of the equipment installed by requiring the use of certified equipment dealers.

To properly monitor this loan guarantee program, which is the first one approved for an electric cooperative, the Commission will require Grayson to include as part of its annual report an updated copy of the schedule filed under Tab 1 in its response to information requested at the informal conference.⁶ This schedule should reflect the status of the loan guarantee program as of the end of the calendar year. In addition, Grayson should include with its annual report a listing of all loans that have gone into default, the amount Grayson was obligated to pay in conjunction with each default, and a description of the collection arrangements it has undertaken with regard to each default. Finally, Grayson should inform the Commission in advance of any significant changes made to the loan guarantee program.

IT IS THEREFORE ORDERED that:

1. Grayson is authorized to guarantee loans for geothermal systems and ETS units, subject to the terms and conditions described in its application.
2. Grayson shall file with its annual report a schedule detailing the status of the loan guarantee program and a listing of those loans that have gone into default, as described herein.

⁶ This schedule shows the date of the loan, the participating bank, the last name of the borrower, the face amount of the loan, the term of the loan, the outstanding balance as of the reporting date, the status of the loan, the applicable interest rate, and the type of equipment purchased.

3. Grayson shall notify the Commission in writing of any significant changes proposed to the loan guarantee program within 30 days prior to the effective date of the proposed changes.

Done at Frankfort, Kentucky, this 22nd day of March, 2000.

By the Commission

ATTEST:



Executive Director