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PUBLIC SERVICE
COMMISSION

May 21, 2013

Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
PO Box 615
Frankfort, KY 40602-0615

Re: Response to Second Data Request Case 2013-00004

Mr. Derouen:

Please find enclosed the original and 5 copies of Jackson Energy Cooperatives' response to your inquiry dated May 10, 2013.

Please inform me if any further information is required.

Sincerely,

A handwritten signature in black ink, appearing to read "Clayton O. Oswald", written in a cursive style.

Clayton O. Oswald
Attorney for Jackson Energy Cooperative

STATE OF KENTUCKY)
COUNTY OF JACKSON)

I, Ricky C. Caudill, state that I am the Planning Engineer at Jackson Energy Cooperative, that I have personal knowledge of the matters set forth in this application and attached exhibits, and that the statements and calculations contained in each are true as I verily believe.

This 21 day of May 2013.

Ricky C. Caudill
Ricky C. Caudill

SUBSCRIBED AND SWORN to before me by Ricky C Caudill this
21 day of May, 2013.

Connie Reid
Notary Public, KY State at Large


My Commission Expires: 7-30-16
470311

STATE OF KENTUCKY)

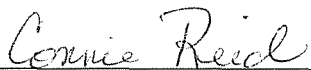
COUNTY OF JACKSON)

I, Clayton O. Oswald, state that I am the Attorney at Jackson Energy Cooperative, that I have personal knowledge of the matters set forth in this application and attached exhibits, and that the statements and calculations contained in each are true as I verily believe.

This 21 day of May 2013.


Clayton O. Oswald

SUBSCRIBED AND SWORN to before me by Clayton O. Oswald this
21 day of May, 2013.



Notary Public, KY State at Large

My Commission Expires: 7-30-14
#470311

JACKSON ENERGY COOPERATIVE
CASE NO. 2013-00004
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

1. Refer to Jackson Energy's response to Commission Staff's First Request for Information ("Staff's First Request"), Item Nos. 3 and 4.

a. Jackson Energy states that the proposed \$500,000/\$1,000,000 level of insurance coverage was determined because it balanced "the desire of the Member to not incur undue costs with the interests of other Members who may suffer damages to their property in the event of a problem with a Members' installation." Jackson Energy further states that the proposed minimum liability coverage does not result in any direct benefits to the company, but provides protection to the net metering customer and that customer's neighbors.

i. Confirm that the imposition of the proposed minimum insurance coverage would not provide any benefits to Jackson Energy, either directly or indirectly.

Response by: Clayton Oswald

Jackson Energy hereby confirms that it does not intend to reap any direct benefit by the imposition of the proposed minimum insurance coverage, nor does it know of any direct benefit that it may derive from such insurance requirement. It is possible that there may be some indirect benefit to Jackson Energy because of the insurance requirements.

ii. If Jackson Energy does claim any indirect benefits derived from requiring a set level of insurance coverage, provide a discussion of what those indirect benefits would be.

Response by: Clayton Oswald

As the Commission knows, requiring liability insurance is for the protection against losses that one hopes will never occur. Stating the indirect benefits that one may derive from the existence of insurance coverage for a third party is, frankly, speculation. The primary and overwhelming motivation for requiring the levels of insurance suggested by Jackson Energy in its tariff filing is for the protection of its members if an installation were to fail. Such a failure could cause damage to a neighbor's appliances, home or even personal injuries. The requirement of liability insurance is to protect those neighbors who may have suffered losses due to a failure, and to protect the member who owns the installation from personal liability for those losses.

Again, it is pure speculation as to how requiring liability insurance could result in an indirect benefit to Jackson Energy. Frankly, this was not discussed at Jackson Energy until this question was posed by the Commission. The only indirect benefits that could occur to Jackson Energy would be to reduce the likelihood of

JACKSON ENERGY COOPERATIVE
CASE NO. 2013-00004
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

lawsuits against Jackson Energy by a person who claims injury to person or property due to the failure of an installation. It is possible that if the owner of the installation had insufficient liability insurance to cover the losses, the injured party may seek compensation from Jackson Energy under some legal theory, so requiring higher levels of insurance could reduce the likelihood of such a happening. However, Jackson Energy does not believe it could or should be liable for such a claim, and Jackson Energy carries liability insurance itself for such claims.

Furthermore, it is also remotely possible that Jackson Energy's facilities could be damaged in the event of the malfunction of a member's installation and Jackson Energy could seek recovery for such damages from the member's insurer.

Jackson Energy knows of no other indirect benefits it could possibly reap from the imposition of the suggested levels of liability insurance.

iii. If there are no direct or indirect benefits to Jackson Energy, explain why it is reasonable for Jackson Energy to impose an additional requirement to potential net metering customers.

Response by: Clayton Oswald

Please see answer to previous request. As has been previously noted, it is not the intention of Jackson Energy to derive either a direct or indirect benefit by requiring a set level of liability insurance for net metering installations. The proposed levels of required liability insurance are for the protection of Jackson Energy's members, both the owner of the installation who may be subjected to civil liability in the event of a failure and the person who claims damages for injuries to person or property if such a failure were to occur.

Furthermore, the current tariff, which resulted from Case No. 2008-00169, states no certain level of liability insurance that is required. Jackson Energy's members inquire as to what level of liability insurance is appropriate after reading the present tariff. Jackson Energy has filed this tariff as its proposal and seeks guidance from the PSC, by way of a PSC order, as to what the Commission will allow it to require of its members who propose net metering installations.

b. Regarding the potential for property damage caused by a net metering system, did Jackson Energy conduct any research to quantify the level of risk (i.e., probability of occurrence and amount of damages caused by an occurrence) associated with a net metering system? If yes, provide the details and results of such research.

Response by: Clayton Oswald

JACKSON ENERGY COOPERATIVE
CASE NO. 2013-00004
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Given the relatively limited use of net metering, Jackson Energy does not believe there is sufficient information available to perform this type of analysis. The levels of risk were determined simply by the engineering expertise of Jackson Energy's personnel who have reviewed this matter and who have discussed such installations with members and have viewed such installations after their completion.

c. Did Jackson Energy perform any research to quantify whether the proposed level of insurance coverage is reasonable and appropriate to protect against "risks for this type of installation?" If yes, provide the details and results of such research.

Response by: Clayton Oswald

Given the lack of general experience with net metering installations, it is not believed that there would be sufficient data available to conduct this type of analysis. The liability amounts proposed by Jackson Energy were based on the availability of those coverage amounts and the amount of damage that could be caused by a system failure. Certainly there may be more damage in some instances and less in others; however, the amounts of insurance proposed are readily available to members at a reasonable cost.

d. Provide support for the statement that it is Jackson Energy's general belief that additional liability insurance is not cost prohibitive.

Response by: Clayton Oswald

As stated in Jackson Energy's responses to the Commission's First Data Request, it was reported to Jackson Energy by one member that \$1,000,000 in liability insurance added an additional \$50 per year to his premium. Jackson Energy further bases this statement on the personal experiences of its own employees. Also, the responding individual has discussed this with an insurance agent and it was reported to this individual that such liability requirements would result in increased premium charges from \$5 - \$15 per year. Jackson Energy has not undertaken to perform a more exhaustive survey of local insurance rates, which may vary greatly from insurer to insurer and from location to location and may further depend on the putative insured's past insurance history. If the Commission so desires, Jackson Energy will, to the extent possible, undertake such a survey and report to the Commission its findings.

e. Other than the one experience with a customer, has Jackson Energy conducted any research to determine the cost of requiring additional liability coverage? If yes, provide the details and results of such research.

JACKSON ENERGY COOPERATIVE
CASE NO. 2013-00004
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Response by: Clayton Oswald

Please see response to prior request.

f. Why do you think a customer might elect to have a net metering system be installed by a non-licensed installer, given the risks detailed in Jackson Energy's response to Item No. 4?

Response by: Clayton Oswald

Jackson Energy cannot speak to the motivation of its members in taking certain actions. However, Jackson Energy would speculate generally that a member may wish to install a net metering system himself or to retain a non-licensed installer because presumably the costs would be less.

g. Provide support for the statement that there is a greater likelihood of a Level 1 system failing when installed by a non-licensed installer versus a licensed installer.

Response by: Clayton Oswald

Jackson Energy does not believe this issue can be thoroughly analyzed given the lack of history and usage of net metering systems. However, a licensed installer would typically have more experience, training and education with such installations than a non-licensed installer, making it more likely that the system would be installed correctly, thus reducing the likelihood of a failure.

h. In the response to Item No. 3, Jackson Energy states that the proposed level of coverage for a Level 1 system installed by a licensed installer is less than the proposed level of coverage for a system installed by a non-licensed installer in part due to the fact that a licensed installer would be insured. Is it Jackson Energy's position that licensed installers typically carry insurance coverage of at least \$500,000? If yes, provide the support for this position. If no, then explain how Jackson Energy arrived at the \$500,000 proposed coverage differential for a Level 1 system installed by a licensed installer and one installed by a non-licensed installer.

Response by: Clayton Oswald

Jackson Energy is not aware of the applicable liability insurance coverage that would be carried by licensed installers. However, such installers would typically have some level of insurance that could potentially be coupled with the owner's liability coverage, as opposed to a non-licensed installer that would likely have no liability coverage to be coupled with the owner's liability insurance.

JACKSON ENERGY COOPERATIVE
CASE NO. 2013-00004
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

i. The terms and conditions of a Level 1 Interconnection and Net Metering agreement provide that the participant, among other things: (1) shall bear full responsibility for the installation, maintenance and safe operation of the generating facility; (2) at Jackson Energy's request, shall demonstrate generating facility compliance; (3) shall represent that the generating facility shall comply with any applicable safety and power quality standards established by IEEE and accredited testing laboratories such as Underwriters Laboratories and Jackson Energy's rules and regulations; and (4) shall allow Jackson Energy the right to examine and/or witness commissioning tests as well as on-site examinations to verify that the installation, maintenance and operation of the generating facility comply with the requirements of the Net Metering tariff. Would these provisions mitigate the risk that the proposed level of insurance coverage is designed to do, particularly the risk associated with the systems installed by non-licensed installers?

Response by: Clayton Oswald

The purpose of the stated provisions is to minimize and mitigate the risk of a system malfunction. However, in spite of these provisions, malfunctions may still occur. As stated in the terms and conditions cited in the request, the member bears the ultimate responsibility for the installation, and the imposition of an insurance requirement is for the protection of that member.

- 2. Refer to Jackson Energy's response to Staff's First Request, Item No. 5. Provide support for Jackson Energy's belief that "the \$1,000,000 liability insurance requirement was sufficient for most possible losses that may occur."**

Response by: Clayton Oswald

The losses that could possibly result from a possible system failure are speculative. Such losses may depend on the type of failure and the number of residences or persons in the vicinity that may be affected at any given time. It is believed that \$1,000,000 is an amount of liability insurance that is readily obtainable by most members from their insurers and is obviously much more sufficient than a much lower level such as \$50,000 or \$100,000 that might accompany a typical homeowner's insurance policy. Any failure that affects multiple residences or persons could easily exceed those lesser limits.

- 3. Refer to Jackson Energy's responses to Staff's First Request, Item No. 10. Reconcile Jackson Energy's response regarding whether Jackson Energy has required a set level of insurance coverage as part of its past Net Metering Tariff and the tariff sheets attached in the Appendix hereto.**

JACKSON ENERGY COOPERATIVE
CASE NO. 2013-00004
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Response by: Ricky C. Caudill

It appears, based on an examination of its records, that Jackson Energy filed a tariff in 2005 that set liability insurance requirements for net metering at \$300,000. This answering individual was not aware of this at the time his previous answer was given. However, that tariff was superseded by the tariff currently in place which does not require a specific level of liability insurance. The present tariff is the result of Case No. 2008-00169.

- 4. Provide the costs of the generating systems on Jackson Energy's Net Metering program. Also, if known, provide the average cost of a photovoltaic residential generating system.**

Response by: Clayton Oswald

Given that such systems are purchased by the consumer without any input from Jackson Energy, a meaningful response cannot be given to this question. Jackson Energy is not a vendor or distributor of such systems and has no specific knowledge as to the average cost.