

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| APPLICATION OF FARMERS RURAL |) | |
| ELECTRIC COOPERATIVE CORPORATION |) | CASE NO. |
| FOR AN ORDER APPROVING KENTUCKY |) | 2014-00281 |
| ENERGY RETROFIT RIDER PERMANENT |) | |
| TARIFF |) | |

ORDER

On August 7, 2014, Farmers Rural Electric Cooperative Corporation ("Farmers") filed an application seeking approval of a permanent on-bill financing program to encourage and incentivize its members to implement cost-effective energy-efficiency measures. Farmers requested that Case Nos. 2010-00089,¹ 2012-00484,² 2013-00398,³ and the periodic reports submitted semi-annually pursuant to those cases be incorporated by reference into this proceeding. Unlike other East Kentucky Power Cooperative, Inc. ("EKPC") distribution cooperatives⁴ that have received Commission approval for on-bill financing programs, Farmers did not propose that its program start as a pilot program before proposing a permanent program. Farmers states that: "[t]he

¹ 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).

² Case No. 2012-00484, Joint Application of Big Sandy Rural Electric Cooperative Corp., Fleming-Mason Energy Cooperative, Inc., and Grayson Rural Electric Cooperative Corp. for an Order Approving KY Energy Retrofit Rider Permanent Tariff (Ky. PSC Aug. 26, 2013).

³ Case No. 2013-00398, Application of Jackson Energy Cooperative Corporation for an Order Approving KY Energy Retrofit Rider Permanent Tariff (Ky. PSC Apr. 7, 2014).

⁴ Big Sandy Rural Electric Cooperative Corporation, Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corporation, and Jackson Energy Cooperative Corporation have all received Commission approval for permanent on-bill financing programs.

Kentucky Energy Retrofit Rider ["KER Rider"] has already been proven as an effective energy efficiency program in Kentucky [and] Farmers RECC does not see the need to develop a pilot program for an established proven program."⁵ Other than that it is not proposed to start as a pilot program, Farmers' proposed KER Rider is largely the same as other Commission-approved KER Riders. Farmers responded to two requests for information issued by Commission Staff ("Staff"). There are no intervenors in this proceeding. The matter now stands submitted for a decision by the Commission.

KER RIDER

Farmers proposes to partner with the Mountain Association for Community Economic Development ("MACED")⁶ to operate the KER Rider program. The proposed KER Rider is a voluntary program available to Farmers' qualifying residential customers. Customers pay for energy-efficiency retrofits from the savings produced by the retrofits on the customer's electric bill.⁷ Farmers states that the 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.⁸ Farmers provided, through its responses to Staff's requests for information, an amended KER Rider,⁹ along with various estimates concerning customer participation in its KER Rider program. Farmers

⁵ Farmers' Response to Commission Staff's First Request for Information ("Staff's First Request"), Item 6, filed Sept. 16, 2014.

⁶ 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.

⁷ Application, paragraph 6.

⁸ *Id.*

⁹ See Farmers' Response to Staff's First Request, Exhibit C.

estimates that 50 customers will participate over the first two years of the program.¹⁰ Farmers projects that, on average, the monthly charge for participating customers will be \$36, and the monthly savings from the retrofits will be \$50. Because the cost of the investment is based on expected savings, a participating customer should not see any increase in his or her monthly bill. The Retrofit Program Charge will appear as a separate line item on the bills of those customers participating in the program.

Farmers and/or its agent(s) 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;¹¹ and (7) disclose pre-existing retrofit investment benefits and costs to new customers.¹²

The KER Rider will require the development of a Conservation Plan for each retrofit option proposed for a member. The Conservation Plan will include a detailed analysis of the costs and expected future savings for each proposed retrofit, as well as a full disclosure of the financing of each retrofit. Farmers states that participating residential members will be able to select from general groups of measures, including

¹⁰ Farmers' Response to Staff's First Request, Item 9(1).

¹¹ The UCC disclosures inform potential buyers of the property of the KER Rider charge on the electric bill.

¹² Application, Exhibit A, P.S.C. KY. No. 10, Original Sheet No. 111.005.

but not limited to: (1) insulation improvements; (2) air sealing; and (3) improvements in heating, ventilating, and air conditioning equipment.¹³

The capital for the retrofits will be provided by MACED from funding it has on hand from private foundations, the U.S. Department of Treasury Community Development Finance Institution Fund ("CDFI"),¹⁴ other federal sources, and MACED's net assets.

MACED's common data infrastructure will pool program data and measurements of key variables to streamline program evaluation and highlight opportunities for design improvement. Key evaluation questions will include:

1. Are energy retrofit measures cost-effective for utility members?
2. Are energy savings being realized?
3. How accurate are cost- and energy-saving estimates?

MACED will work with Farmers to collect and analyze the data to answer these questions throughout the operation of the KER Rider.¹⁵

The KER Rider has been designed to reduce financial risks at all stages of development, according to Farmers. 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.

¹³ *Id.* at paragraph 9.

¹⁴ Application, paragraph 11, MACED is a certified CDFI.

¹⁵ Application, paragraph 12.

Farmers states it will participate in the existing Risk Mitigation Fund¹⁶ administered by MACED for participating EKPC cooperatives.¹⁷

DISCUSSION

By providing access to low-cost financing, it appears that the KER Rider will provide incentive for customers to invest and implement energy-efficiency measures, benefiting not only the participating customers, but also the utility and, ultimately, the entire rate base by reducing demand. The program is directed at customers who, without access to low-cost capital, would most likely not avail themselves of energy-efficiency measures due to the expense involved. In addition, the cost is borne by those directly benefiting from the measures and is not spread throughout Farmers' customer base. Another critical feature is that the program, as designed, should not increase a participating customer's monthly electric bill. Rather, payments for the energy-efficiency measures implemented by a customer are based on the estimated savings to be achieved by the measures, with the total cost capped at 90 percent of the estimated savings.

The Commission is encouraged by the results of the KER Rider as shown in the reports filed pursuant to Case Nos. 2010-00089, 2012-00484, and 2013-00398. The KER Rider program has shown reasonable customer participation and has provided the opportunity for customers to benefit from savings on their energy bills through energy efficiency. The KER Rider has encouraged energy conservation, lowered consumer

¹⁶ The Risk Mitigation Fund is a self-insurance policy between the EKPC cooperatives and MACED that allows the utility to cover its losses should a retrofit investment become inactive or be deemed uncollectible. The Risk Mitigation Fund was more fully described in Case Nos. 2010-00089, 2012-00484, and 2013-00398.

¹⁷ *Id.* at paragraph 13.

bills, and should result in reduced future demand. The Commission continues to encourage innovative energy efficiency on both the supply and demand side of the energy equation and remains very interested in the effectiveness of the KER Rider. Therefore, we will require the reporting of certain information pertaining to the performance of the program, consistent with the reporting requirements of the other EKPC cooperatives with KER Riders.

To better ensure that the estimated savings will be achieved, the Commission believes that consumer education and information must be an integral component of the KER Rider. Towards that end, the Commission will require Farmers to file a comprehensive plan addressing how it will educate and inform its customers about all aspects of the program, including, but not limited to, behavioral awareness, product information, and those obligations the customers would be assuming as a participant in the KER Rider program. This comprehensive plan should also include a checklist of items to be reviewed with each participating customer, as well as a signed customer acknowledgement that the items on the checklist have been reviewed with the customer.

To ensure a transparent process concerning the inclusion of third-party contractors in Farmers' contractor list, Farmers shall file with the Commission the set of criteria upon which a third-party contractor is selected to be included in Farmers' contractors list. In addition, any customer requesting a contractor who is not currently on Farmers' contractors list shall be directed by Farmers to have the contractor contact Farmers about being placed on the list. Lastly, to protect against any appearance of

bias in the selection of independent contractors, Farmers shall include a copy of its independent contractor list in its annual status report.

FINDINGS

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. Farmers should supplement its amended KER Rider by including as part of the tariff a sample of all documents pertaining to the KER Rider. These documents should include the Conservation Plan, the Master Contractor Agreement, the KY Retrofit Purchase Agreement, the UCC Disclosure, and the Energy Efficiency Retrofit Project Change – Notification and Transfer of Obligation.

2. Farmers' amended KER Rider, as supplemented by the additional documents listed in finding paragraph 1, is reasonable and should be approved.

3. Farmers' request that Case Nos. 2010-00089, 2012-00484, and 2013-00398, and the periodic reports submitted semi-annually pursuant to those cases, be incorporated by reference into this proceeding is reasonable and should be approved.

4. Farmers should, within ten days of such an occurrence, notify the Executive Director of the Commission by letter if the balance remaining in the Risk Mitigation Fund falls below \$10,000.

5. Beginning June 30, 2015, and by March 31 of each year thereafter, Farmers should file with the Commission an annual status report relating to the KER Rider. The status reports should provide the information listed in the Appendix to this Order.

6. Within 30 days of the date of this Order, Farmers should file with the Commission an executed copy of the Memorandum of Agreement between Farmers and MACED that was attached as Exhibit C of the application.

IT IS THEREFORE ORDERED that:

1. The KER Rider as amended by Farmers, and as supplemented by the documents listed in finding paragraph 1, is approved for use on and after the date of this Order.

2. Case Nos. 2010-00089, 2012-00484, and 2013-00398, and the periodic reports submitted semi-annually pursuant to those cases, are incorporated by reference into this proceeding.

3. Farmers shall, within ten days of such an occurrence, notify the Executive Director of the Commission by letter, if the balance remaining in the Risk Mitigation Fund falls below \$10,000.

4. Farmers shall comply with the reporting requirements set out in finding paragraph 4.

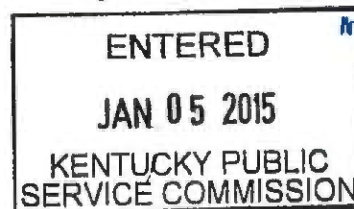
5. Within 30 days of the date of this Order, Farmers shall file with the Commission an executed copy of the Memorandum of Agreement between Farmers and MACED that was attached as Exhibit C of the application.

6. Within 20 days of the date of this Order, Farmers shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.

7. Any document filed pursuant to ordering paragraphs 3, 4, and 5 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

8. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon Farmers' showing of good cause for such extension.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO 2014-00281 DATED **JAN 05 2015**

Beginning June 30, 2015, and by March 31 of each year thereafter, Farmers 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 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 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 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 of 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 Rider program.

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

For its first Status Report to be filed on June 30, 2015, Farmers shall include the additional information below:

12. A comprehensive plan addressing how Farmers will educate and inform its customers about all aspects of the program, including, but not limited to, behavioral awareness, product information, and those obligations the customers would be assuming as a participant in the KER Rider program. This comprehensive plan should also include a checklist of items to be reviewed with each participating customer, as well as a signed customer acknowledgement that the items on the checklist have been reviewed with the customer.

13. The set of criteria upon which a third-party contractor is selected to be included in Farmers' contractors list.

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