



Steven L. Beshear  
Governor

Leonard K. Peters  
Secretary  
Energy and Environment Cabinet

Commonwealth of Kentucky  
**Public Service Commission**  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602-0615  
Telephone: (502) 564-3940  
Fax: (502) 564-3460  
psc.ky.gov

David L. Armstrong  
Chairman

James W. Gardner  
Vice Chairman

Charles R. Borders  
Commissioner

July 23, 2010

**PARTIES OF RECORD:**

Re: Case No. 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"

The attached memorandum had been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five (5) days of the receipt of this letter. Any questions regarding this memorandum should be directed to Roger Hickman, at (502) 564-3940, Extension 236, or to Daryl Newby, at (502) 564-3940, Extension 253.

Sincerely,

A handwritten signature in cursive script that reads "Aaron D. Derouen".

*for* Jeff Derouen  
Executive Director

Attachment

**INTRA-AGENCY MEMORANDUM**  
**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File

**FROM:** Roger D. Hickman, Utility Financial Analyst

**DATE:** July 23, 2010

**RE:** 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"

Pursuant to the Commission's July 19, 2010 Order, an informal conference was held at the Commission's offices on Tuesday, July 20, 2010. A list of the attendees is attached hereto.

The purpose of the conference was to discuss any outstanding issues related to the aforementioned application including, among other things, additional Commission Staff questions about, and clarifications of other aspects of, the Kentucky Energy Retrofit ("KER") Pilot Program proposed by the Joint Applicants ("the Pilot Program").

Staff opened the conference with updates about recent changes in the executive leadership of the Commission, and then outlined the reasons underlying the call for the Informal Conference. Staff also stated their questions and comments should not be interpreted as an indication of how the Commission might eventually judge the Joint Applicants' proposal.

Staff outlined some changes which the Joint Applicants should make in the final KER tariff to be filed with the Commission including, among other things, defining certain capitalized terms. Such definitions might reflect those already in place in either regulations or statutes.

A representative of the Office of the Attorney General ("AG") asked about the possible subordination of the on-bill financing obligation, as proposed by the Joint Applicants, to the mortgage of any customer participating in the Pilot Program. The AG inquired about the impact of bankruptcy or foreclosure on the on-bill financing obligation. Finally, the AG wanted to know how the Joint Applicants and the Mountain Association for Community Economic Development ("MACED") might address outstanding payment obligations existing at the end of the Pilot Program, should the Pilot Program not be extended beyond the initial two-year period.

Joint Applicants, Commission Staff, and the AG then discussed a number of issues and concerns about disconnections due to non-payment, how those might be handled, and whether such disconnections would be related to utility service. They also discussed the treatment of bad debt expenses arising from the Pilot Program. Staff asked the Joint Applicants if they would be comfortable with only writing off bad debts related to costs incurred by them, while MACED might pursue other avenues to recover the costs of equipment, materials, and installation. Staff asked the Joint Applicants to consider any options, other than disconnection, which would facilitate customers' paying their obligations under the Pilot Program.

The Joint Applicants and MACED, in response to Staff requests for clarification, noted that any participating customer may select the contractor to install the energy efficiency measures, but only from a listing of contractors approved for such work by the Joint Applicants, in consultation with MACED. Any customer requesting a contractor not on the list would be directed to have the contractor contact the Joint Applicants about being placed on the list, with the Joint Applicants, in consultation with MACED, making the decision about listing the contractor. Staff emphasized the importance of maintaining such contractor listing based upon a pre-determined set of selection criteria.

In response to questions about arbitration as outlined in the various draft agreements presented with their Application, Joint Applicants confirmed that they might incur some arbitration costs but such costs would be limited to the extent they are assigned to them by the arbitrator. Staff suggested that the Joint Applicants create a list of approved arbitrators in advance and maintain that listing in a manner similar to the pre-approved contractor listing.

In response to Staff questions about the status of third-party funding for the Pilot Program, the Joint Applicants and MACED provided an update. MACED confirmed that no such third-party funding would be in jeopardy should the Commission not approve the Pilot Program exactly as filed. MACED agreed that part of any such third-party funding might be reserved to cover any bad debts arising from customer defaults. However, MACED noted that doing so would result in the Joint Applicants and MACED having to factor a higher interest rate into any evaluation of energy efficiency options, which in turn would reduce the funds available for actual energy efficiency measures. In any event, the Joint Applicants and MACED expect such bad debt experience to be minimal, perhaps as low as 1 out of 500 based upon the experience of other on-bill financing programs similar to their proposed Pilot Program. MACED also confirmed that the collaborative mentioned in the Application was on hold pending the approval, and implementation, of the Pilot Program.

The Joint Applicants, the AG, MACED, and Staff reviewed the questions which had been raised during the conference. Joint Applicants are to submit their responses no later than August 3, 2010.

There being no further discussions, the informal conference was adjourned.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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"

SIGN IN

July 20, 2010

PERSON	REPRESENTING
Quang D. Nguyen	PSC
Roger A. Hickman	PSC
May Beth Hance	FME
Joni Hayelbrigg	FME
Ginny Smith	PSC
Elie Russell	PSC
Paul Adams	Attorney General
Eli Hopson	MACED
Dan Combs	GRAYSON
John Rogness	PSC
Ron Handziak	PSC
Daryl Newby	PSC

Honorable Albert A. Burchett  
Attorney at Law  
P. O. Box 0346  
Prestonsburg, KY 41653

Lawrence W. Cook  
Assistant Attorney General  
Office of the Attorney General  
Utility & Rate Intervention Division  
1024 Capital Center Drive  
Suite 200  
Frankfort, KY 40601-8204

Honorable J. Warren Keller  
Attorney at Law  
Taylor, Keller & Dunaway & Tooms  
Attorneys At Law  
1306 West Fifth Street  
Post Office Box 905  
London, KY 40743-0905

Honorable W. Jeffrey Scott  
Attorney At Law  
P.O. Box 608  
311 West Main Street  
Grayson, KY 41143

Honorable Marvin W. Suit  
Attorney At Law  
Suit, McCartney & Price, PLLC  
207 Court Square  
Flemingsburg, KY 41041