

COMMONWEALTH OF KENTUCKY

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BEFORE THE PUBLIC SERVICE COMMISSION

AUG 31 2010

In the Matter of:

PUBLIC SERVICE
COMMISSION

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")

CASE NO.
2010-00089

COMMENTS OF THE JOINT APPLICANTS

Big Sandy Rural Electric Cooperative Corporation, Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corporation, and Jackson Energy Cooperative (collectively "Joint Applicants") hereby file their comments on the proposed pilot program pursuant to the Commission's August 6, 2010 Order.

General Comments

The Joint Applicants believe they have proposed a pilot program that addresses a problem that has hampered the installation of energy efficient measures in homes across Kentucky. Simply providing information about potential future savings from energy efficiency measures have not shown to be enough to motivate most customers to spend or borrow personally to improve the energy efficiency of their homes. The barriers to taking action are too large, whether it is a lack of cash on hand or poor access to credit. The proposed pilot program would help remove those barriers and allow customers to take actions that benefit them financially.

The Joint Applicants stress that the proposed pilot program is entirely voluntary and a relatively small number of customers are expected to participate during the two-year period.

Customers that choose to participate in the pilot program will be able to afford improvements that make their homes more comfortable, increase the value of their homes, and save money on their average bills immediately.

By reviewing and incorporating where applicable the experience of other similar on-billing financing programs across the United States, the Joint Applicants believe they have developed a pilot program that will provide benefits to participants and provide a new option to customers interested in installing energy efficiency measures who previously were not able to do so. Contrary to the conclusions of the Attorney General (“AG”), the Joint Applicants argue that the record in this proceeding supports the approval of the two year pilot program. The balance of these comments will address issues raised by the AG in his comments filed on August 17, 2010.

AG’s Comments

In reviewing the AG’s comment on the pilot program, the Joint Applicants noted several misstatements concerning provisions of the program:

- On page 1 of his comments, the AG states, “The project budget would also be limited to ensure that the customers’ average monthly electric bill, plus the loan repayment amount added to the monthly electric bill, does not exceed 90% of the average monthly bill prior to the installation of the upgrades.” However, the payments are calculated to be approximately 90% of the estimated savings as compared to the original utility bill, not the entirety of the utility bill.¹
- On page 2 of his comments, the AG states, “If the potential buyer does not agree to assume the obligation, then the joint applicants will require the loan to be paid in full with the proceeds from the sale.” As stated in Exhibit E to the Application, “Failure to disclose the Retrofit obligation to subsequent tenants or buyer will constitute permission

¹ See Response to the 1st Data Request of the AG, Question 37.

by Customer for the tenant or buyer to break any lease or purchase agreement within thirty (30) business days of utility service being requested without cost or recourse by Customer.”² There is no provision in the pilot program requiring that the “loan” is to be paid in full with the proceeds from the sale.

- Throughout his comments, the AG continually refers to the repayment of the retrofits as “loans.” The Joint Applicants have been clear on this point since the filing of the Application, it is the feature that makes this proposed pilot program unique: The retrofit does not constitute a loan or create any obligations under Kentucky law pertaining to consumer credit or mortgage financing. The retrofit is an investment by the utility in the energy efficiency of an account. It is not a personal loan to the ratepayer.³

The Joint Applicants would also like to respond to specific issues raised by the AG in his comments.

Payback Period. The AG recommends that for the pilot program that a 5 year payback be utilized in the calculations. The Joint Applicants proposed that the payback period be 75% of the estimated life of the measure or 15 years, whichever is less. The AG states that he believes the maximum 15 year payback is too long for a pilot project of this nature. The AG acknowledges that a shorter repayment period would have the effect of reducing the budget for the potential upgrades available to ratepayers, but as this is the first experiment in Kentucky with this type of financing arrangement, he believes a shorter repayment period is more appropriate.

The Joint Applicants strongly disagree with the AG’s recommendation. The AG recommends a payback period of 5 years, but has offered no evidence or analysis to support the selection of such an arbitrary time limit. The proposed 75% of the estimated life of the measure

² See Application, Exhibit E, second page, Item 6.

³ See Application, Exhibit E, second page, “Other Terms and Conditions” Item 5; also see the Response to the 1st Data Request of the AG, Question 14.

or 15 years, whichever is less, was based on the experience of other similar on-bill financing programs. The reduction of the maximum payback period would hurt customers and diminish the Joint Applicants' ability to meet customer needs. Safeguards are already built into the program to reduce the risks to customers. In some cases structural or repair work may be needed as a prerequisite for the energy efficiency measures, such as air sealing. If that is the case, more complicated projects would not be able to be undertaken under the AG's recommended 5 year payback period, even though projected savings would justify the investment.

If the pilot is not extended after the 2 years, the Joint Applicants and the Mountain Association for Community Economic Development ("MACED") will continue servicing customers already included in the pilot program, but will not all new customers to sign up. MACED's financial reporting requirements and data tracking requirements associated with the funding for the pilot program will extend for the full amortization period, regardless of whether the pilot program is extended. Likewise, the Joint Applicants' accounting systems already accommodate amortization of infrastructure investments for specific accounts over preset time periods. These systems ensure that individual customer's tariff rates reflect the terms of service accurately for a given time period.

The KY Energy Retrofit Rider is an attempt to allow complete home retrofits to be amortized on the primary beneficiary's bill. Without the 75% estimated life or 15 year payback period, the scope of the retrofits that could participate under the program would be so drastically reduced that the pilot could not actually produce much useful information about which retrofits are most effective, nor allow the Joint Applicants and contractors to respond to the full range of needs identified in the field.

Estimated Life Longer than Useful Life. In tandem with his recommendation of a 5 year payback period for the pilot program, the AG constructs a hypothetical scenario where a heat pump installation, with a payback period of 15 years, only functions for 10 years. The AG concludes that under this hypothetical scenario the ratepayer would still be required to pay the balance to his cooperative for the remaining 5 years, this in addition to the cost to replacing the failed heat pump unit.

The Joint Applicants disagree with the AG on this point. As part of the installation process, there are test-in and test-out of retrofits to verify the proper installation and effectiveness of the equipment before the contractors are paid. The participating customer also has alternatives that can address the concerns raised in the AG's hypothetical scenario. In order to allow a customer to reduce their risk of equipment failing after the warranty period, but before all of the payments are made, the pilot program will offer extended warranties on equipment through the amortization period to customers as part of the on-bill charge. Also, if future repairs are needed out of warranty, the customer may roll the cost of those repairs into the retrofit charge on their utility bill, as long as the charges would not extend the amortization period beyond the useful life of the equipment.

Lowering Percentage from 90% to 75%. The AG states that the Joint Applicants propose to set the repayment amount in conjunction with the average monthly bill so that the customer's bill will be approximately 90% of the bill prior to the installation of the upgrade. The AG argues that this level is too high and does not allow for the fact that the upgrades may not perform as advertised. He contends that it would be better to have a lower threshold to ensure that even if the upgrades don't perform exactly as expected or the customer's energy usage charges, the customer will not be surprised with an average bill that is higher than before the upgrades. The

AG recommends that the electric bill plus any upgrade costs not exceed 75% of the average bill prior to the upgrades.

As the Joint Applicants have already noted, the AG has misunderstood this part of the pilot program. The payments are calculated to be approximately 90% of the estimated savings as compared to the original utility bill, not the entirety of the utility bill. And as was the case with his recommendation to shorten the payback period, the AG has submitted no evidence or analysis that supports the selection of the 75% level, regardless of whether applied to the average bill prior to upgrades or the savings as compared to the original utility bill.

The Joint Applicants strongly disagree with the AG's recommendation. There are numerous provisions in the pilot program to examine and test installed energy efficiency measures to ensure that these measures do perform as expected. The Joint Applicants contend that more people will be able to afford more retrofits if the cost recovery is capped at 90% instead of 75%. The alternative is that the customers pay more of the full price for the equipment and retrofit either up front or at commercial interest rates, which are significantly higher. Capping the program rate does not eliminate the need or the amount customers must come up with to make the investments, it just decreases the ability of the pilot program to help meet the customers' needs. If there are any complications to the retrofit, a 75% cap would likely decrease the number of customers who can participate in the pilot program. Finally, if the 75% cap were required, for projects over 75% only those customers who can afford to buy down the project will be able to participate.

The Joint Applicants note that the 90% is a ceiling amount; the average for customers amortizing the full cost is likely to be 75% to 80% and far less for low income customers eligible

for weatherization subsidies. However, the 90% maximum leaves flexibility for the pilot program to address special needs or respond to unique situations.

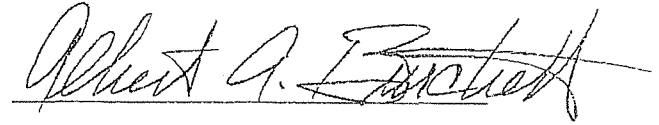
Loan or Investment. The AG concludes his comments by raising the concern that this financing program is actually a consumer loan. The AG notes that if an authority having jurisdiction was of the opinion that it was a consumer loan program, the Joint Applicants would be required to comply with numerous requirements for organizations making loans to consumers and open them up to possible penalties for their failure to meet these requirements. The AG acknowledges he has not studied this issue in detail, but believes there could be a finding that these are consumer loans. The AG strongly suggests that the Joint Applicants review the relevant law in this area to ensure they comply with all statutes and regulations.

The Joint Applicants again stress that the proposed pilot program will provide energy efficiency retrofits as part of utility service. The pilot program makes utility investments based on the structure involved, not consumer loans based on a person's income or creditworthiness. Although there is an amount of money that is amortized over time, the fundamental agreement is tied to providing utility service at that property location, not to the person. If the customer stops receiving utility service, the customer is no longer required to pay the utility. The Joint Applicants also believe the experience of similar on-billing financing programs in other states have established that this financing is not a consumer loan.

The Joint Applicants are concerned that the AG would make the claim these are consumer loans without studying the issue in detail. The AG has offered no citations to applicable statutes or regulations to support his contention that this financing is a consumer loan. The Joint Applicants believe the record in this case clearly distinguishes this financing from a consumer loan.

The Joint Applicants request that the Commission reject the recommendations and suggestions offered by the AG and approve the pilot program.

Respectfully submitted,



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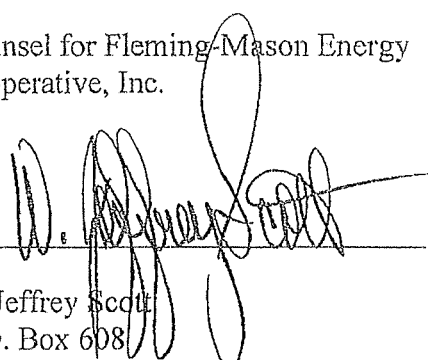
Respectfully submitted,

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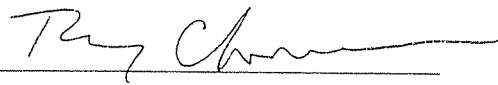
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A handwritten signature in black ink, appearing to read "Rodney Chrisman", is written above a solid horizontal line.

Rodney Chrisman

Vice President of Customer Services

Jackson Energy

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Respectfully submitted,

A handwritten signature in cursive script, reading "Joni Hazelrigg", is written over a horizontal line.

Joni Hazelrigg

Chief Financial Officer

Fleming-Mason Energy Cooperative, Inc.