

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF BIG SANDY RURAL	)	
ELECTRIC COOPERATIVE CORP.,	)	
FLEMING-MASON ENERGY COOPERATIVE,	)	CASE NO.
INC., AND GRAYSON RURAL ELECTRIC	)	2012-00484
COOPERATIVE CORP. FOR AN ORDER	)	
APPROVING KY ENERGY RETROFIT	)	
RIDER PERMANENT TARIFF	)	

ORDER

On December 16, 2010, the Commission authorized Big Sandy Rural Electric Cooperative Corporation (“Big Sandy”), Fleming-Mason Energy Cooperative, Inc. (“Fleming-Mason”), Grayson Rural Electric Cooperative Corporation (“Grayson”), and Jackson Energy Cooperative Corporation (“Jackson Energy”) to establish an on-bill financing pilot program to encourage customers to implement energy-efficiency measures.<sup>1</sup> The four cooperatives partnered with the Mountain Association for Community Economic Development (“MACED”)<sup>2</sup> to operate and fund the pilot program, known as the KY Energy Retrofit Rider (“KER Rider”). The program was approved on a

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<sup>1</sup> 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).

<sup>2</sup> 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.

pilot basis for two years, and each of the four cooperatives filed tariffs to implement the pilot program.

On November 2, 2012, Big Sandy, Fleming-Mason, and Grayson, (“Joint Applicants”) filed a joint application (“Joint Application”) requesting Commission approval of a permanent on-bill financing program for each of their respective cooperatives. Joint Applicants propose three primary modifications to the existing pilot program tariff that will apply to the proposed permanent tariffs. They also requested a continuance of the existing pilot programs approved in Case No. 2010-00089 pending issuance of a final Order in the current case. The Commission’s November 19, 2012 Order granted a continuance of the Joint Applicants’ tariffs for the existing pilot program during the Commission’s investigation of the joint application.

Jackson Energy is not requesting approval of a permanent KER Rider at this time. Jackson Energy confirms that “[a]t the time of the permanent filing, Jackson Energy was in the process of a change in management. The new management team of Jackson Energy is presently reviewing the potential of continuing our association with How\$martKY (on-bill financing) contingent upon the Public Service Commission’s approval of the permanent filing.”<sup>3</sup> Commission Staff has issued four data requests to which Joint Applicants have responded. There are no intervenors in this proceeding.

#### DISCUSSION

The KER Rider is a voluntary program available to qualifying customers of the Joint Applicants’ residential and commercial/small industrial customers. Customers pay for energy-efficiency retrofits from the savings produced by the retrofits on the

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<sup>3</sup> Jackson Energy’s response to the letter of Jeff Derouen, Executive Director, Kentucky Public Service Commission, dated July 3, 2013, filed July 11, 2013, second [unnumbered] page.

customer's electric bill.<sup>4</sup> Joint Applicants state that 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.<sup>5</sup> The retrofit program charge appears as a separate line item on the bills of those customers participating in this program.

A participating cooperative and/or its agent will: (1) market and administer the program; (2) prequalify eligible locations; (3) perform energy audits to produce conversation 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; and (7) disclose pre-existing retrofit investment benefits and costs to new customers.<sup>6</sup>

Joint Applicants state that since the December 16, 2010 Order<sup>7</sup> approving the KER Rider pilot program, they, along with pilot participant Jackson Energy and MACED, have conducted 200 energy-efficiency assessments, resulting in 98 completed retrofits as of October 23, 2012. With 35 additional projects in progress, this reflects a 67 percent conversion rate, which according to Joint Applicants, is greater than the

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<sup>4</sup> Joint Application, filed Nov. 2, 2012, ¶ 16, p. 5.

<sup>5</sup> *Id.*, at pp. 5-6.

<sup>6</sup> Joint Application, filed Nov. 2, 2012, Exhibit A – Proposed Tariff, fourth [unnumbered] page.

<sup>7</sup> Case No. 2010-00089 (Ky. PSC Dec. 16, 2010).

average conversion rate of similar on-bill financing programs in other states.<sup>8</sup> Normalizing for weather, they state, the average participant has reduced usage by 21 percent after participating in the program.<sup>9</sup> Each retrofit costs an average of \$7,780 to complete, with financing covering \$5,604 of the project cost.<sup>10</sup> Where sufficient post-retrofit data exists, the average projected monthly energy savings of \$52.70 per month tracks closely with the average normalized monthly savings per home of 454 kWh per month.<sup>11</sup> Using the average residential rate of \$0.11/kWh, this results in estimated actual energy savings of \$49.94 per month.<sup>12</sup> Joint Applicants state that the average on-bill retrofit charge is \$38.70 per month.

Three of the 98 participating locations became inactive. Grayson had two accounts for which the retrofit repayments were inactive as indicated in its May 20, 2013 filing.<sup>13</sup> Both of Grayson's inactive accounts are the result of foreclosure.<sup>14</sup> Big Sandy had one participating location that had suffered significant damage from fire or natural disaster, but as of April 8, 2013, that location was active and current on project

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<sup>8</sup> Joint Application, ¶ 11, pp. 3-4.

<sup>9</sup> *Id.*, at p. 4.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> Grayson Rural Electric Co-Operative Corporation's Response to Commission Staff's Request for Information Arising from the Telephonic Informal Conference of May 14, 2013, filed May 20, 2013.

<sup>14</sup> In the Joint Application, at paragraph 13, Joint Applicants stated that to date, only one of the 98 participating locations is inactive. However, in response to Item 5.b of Commission Staff's First Request for Information, it was indicated that Grayson has two completed retrofit project locations that have been foreclosed upon. In response to Item 1.b. of Commission Staff's Third Request for Information, filed April 10, 2013, it was indicated that both of Grayson's foreclosed project accounts have inactive accounts. In response to Item 2 of Commission Staff's Third Request for Information, it was indicated that both of the accounts referred to in 1.b. should be included in the inactive number at paragraph 13 of the Application. As of April 10, 2013, Grayson's two retrofit locations that had been foreclosed upon were inactive.

payments.<sup>15</sup> Joint Applicants stated they had received no complaints about the KER Rider from participants.<sup>16</sup> No additional staff has been required, and no substantive additional administrative costs have been incurred by Joint Applicants resulting from the KER Rider.<sup>17</sup>

Participating residential customers select from among one of three general groups of measures: (1) insulation improvements; (2) air sealing; and (3) improvements in heating, cooling and ventilation equipment. Commercial/small industrial accounts have these options, plus an option for lighting improvements and upgrades.<sup>18</sup>

MACED has provided the initial funding for data infrastructure administration and implementation, program design and coordination. MACED will continue to support a common data infrastructure to pool program data and measurements of key variables to streamline program evaluation and highlight opportunities for design improvement.<sup>19</sup> The capital for the investments by MACED will continue to come from \$2,000,000 MACED has on hand from private foundations and the U.S. Department of Treasury Community Development Finance Institution (“CDFI”) Fund.<sup>20</sup> The \$1 million that MACED raised to cover the operating expenses associated with conducting the KER

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<sup>15</sup> Grayson Rural Electric Co-Operative Corporation, Big Sandy Rural Electric Co-Operative Corporation, and Fleming-Mason Energy Co-Operative, Inc.’s Response to Commission Staff’s Third Request for Information, Response to Item 1.a., filed April 10, 2013.

<sup>16</sup> Grayson Rural Electric Co-Operative Corporation’s Response to Commission Staff’s Second Request for Information to Big Sandy Rural Electric Co-Operative Corporation, Fleming-Mason Energy Co-Operative, Inc., and Grayson Rural Electric Co-Operative Corporation, Response to Item 4, filed Feb. 18, 2013.

<sup>17</sup> Joint Application, ¶ 12, p. 4, filed Nov.2, 2012.

<sup>18</sup> Case No. 2010-00089, Dec. 16, 2010 Order, p. 3.

<sup>19</sup> Joint Application, ¶ 19, p. 7.

<sup>20</sup> *Id.*, ¶ 18, p. 6.

pilot program came from a mix of grants from private foundations and state agencies.<sup>21</sup> Joint Applicants state that going forward, MACED will continue to seek outside funding sources and will also institute a schedule of fees for the services provided under the KER program to assist with the long-term sustainability of the program.<sup>22</sup>

Although the KER Rider pilot program was designed to reduce financial risks to the participating cooperatives and their members, Joint Applicants and MACED propose to further reduce potential risk in the permanent program by implementing a Risk Mitigation Fund, which will initially be funded utilizing \$50,000 from a Department of Energy Development and Independence/Tennessee Valley Authority (“DEDI/TVA”) settlement grant to MACED, supplemented by 4 percent of the 5 percent Administrative fee charged for each project.<sup>23</sup> The Commission believes that this “self-insurance” type of fund substantially eliminates the responsibility for other members of the Joint Applicants to cover losses from inactive locations.<sup>24</sup> To properly monitor the effectiveness of the fund, the Commission will require Joint Applicants to notify the Executive Director of the Commission by letter if the balance in the fund falls below \$10,000.

Joint Applicants propose three modifications to the existing pilot KER Rider tariff that will apply to the proposed permanent tariff, if authorized by the Commission: (1) the

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<sup>21</sup> Joint Applicants’ Responses to Commission Staff’s First Request for Information, Response to Item 9, filed Jan.10, 2013.

<sup>22</sup> *Id.*

<sup>23</sup> Grayson Rural Electric Co-Operative Corporation, Big Sandy Rural Electric Co-Operative Corporation, and Fleming-Mason Energy Co-Operative, Inc.’s Response to Commission Staff’s Third Request for Information, Response to Item 4.a., filed Apr. 10, 2013.

<sup>24</sup> The proposed Kentucky Energy Retrofit Program Risk Mitigation Fund Operational Procedures are set out in Attachment B, Attachment 3, pp. 17-19 of 32, in Fleming-Mason’s Responses to Commission Staff’s Fourth Request for Information, Response to Item 2, filed June 13, 2013.

annual interest rate charge used to calculate the Retrofit Project Charge will be no more than the cost of the capital pool used to finance the investment, rather than the participant cooperative's cost of long-term debt used for other purposes; (2) the retrofit investment is tied to the physical location at which the investment is made, not to an account tied to an individual; and (3) the reference to a "permanently anchored foundation" will be removed to allow the participating cooperative some discretion in determining the likelihood of a structure remaining at the physical location for at least the term of the investment payback.<sup>25</sup> Although the first two modifications clarify the language of the tariff, those modifications do not change the actual application of the tariff as applied in the pilot program. Throughout the pilot, the same interest rate charged by MACED to the cooperative was the interest rate charged by the cooperative to the participant.<sup>26</sup> Additionally, the energy-efficiency investments made to properties included in the pilot were tied to the physical location at which the investments were made, rather than just to a customer's account. The proposed deletion of the pilot tariff language requiring a structure to be permanently anchored to a foundation will allow energy-efficiency improvements made to manufactured housing to be eligible under the KER Rider if it is deemed likely the structure will remain for at least as long as the term of the loan. The proposed eligibility of such housing to participate in the KER Rider was not part of the pilot program.

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<sup>25</sup> Joint Application, ¶ 15, p. 5.

<sup>26</sup> Joint Applicants' Responses to Commission Staff's Second Request for Information, Response to Item 2.d., filed Feb. 18, 2013.

## FINDINGS

The Commission finds that the Joint Applicants' proposed permanent KER Rider, including the implementation of a risk-mitigation fund and the three modifications to the existing pilot KER Rider, is reasonable and should be approved. The Commission further finds that Joint Applicants' request that Case No. 2010-00089 and the periodic reports that have been submitted semi-annually be incorporated into the record of this case by reference is reasonable and should be approved.

The Commission is encouraged by the results of the pilot KER Rider. The pilot 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 Commission remains very interested in the effectiveness of the KER Rider. Therefore, we will continue to require the annual reporting of certain information pertaining to the performance of the program. Further, the Commission finds the three modifications to the existing KER Rider tariff that will apply to the proposed permanent tariff are reasonable, and should also be approved. In addition, the Commission finds that each of the Joint Applicants should submit tariff sheets to adopt a permanent KER Rider that reflects the approvals herein.<sup>27</sup>

The Commission applauds the Joint Applicants and MACED for their efforts in developing the KER Rider and in presenting the program for our review. The KER Rider has encouraged energy conservation, lowered consumer bills, and will result in

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<sup>27</sup> The proposed illustrative tariff sheets submitted with the Joint Application identify Fleming-Mason as the named cooperative. A number of minor clerical errors exist in those tariff sheets, primarily with certain words not appearing in their entirety. Joint Applicants should ensure that the copies of tariff sheets submitted are complete in their text.

reduced future demand. The Commission continues to fully encourage innovative energy efficiency on both the supply and demand side of the energy equation.

IT IS THEREFORE ORDERED that:

1. Joint Applicants' proposed KER Rider, including the implementation of a Risk Management Fund and three modifications to the pilot KER Rider, is approved on a permanent basis as proposed.

2. Joint Applicants shall, within ten days of such an occurrence, notify the Executive Director of the Commission if the balance remaining in the risk mitigation fund falls below \$10,000.

3. Joint Applicants' request that Case No. 2010-00089 and the periodic reports that have been submitted semi-annually be incorporated into the record of this case by reference is approved.

4. Beginning with its 2013 Annual Report, each of the Joint Applicants shall file with the Commission separate annual status reports relating to the KER Rider for its particular cooperative. The status reports shall provide responses to the information listed in the Appendix to this Order.

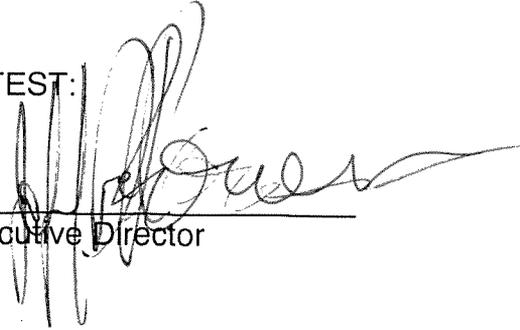
5. Within 20 days of the date of this Order, Joint Applicants shall file with the Commission their respective KER Rider tariff sheets showing the date of issue and that it was issued by authority of this Order. Joint Applicants shall ensure that the copies of tariff sheets submitted are complete in their text.

6. Any documents filed pursuant to ordering paragraphs 2 and 4 of this Order shall reference the number of this case and shall be retained in the utilities' respective general correspondence files.

By the Commission

ENTERED  
AUG 26 2013  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
\_\_\_\_\_  
Executive Director

Case No. 2012-00484

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00484 DATED **AUG 26 2013**

Beginning with its 2013 Annual Report, each of the Joint applicants shall include a Data Report for its particular cooperative containing the following information for the preceding calendar year:

1. Number of homes that have completed an energy assessment during the preceding calendar 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 preceding 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 estimated 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 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 program.

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

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