

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**THE 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")**

RECEIVED

AUG 17 2010

PUBLIC SERVICE
COMMISSION

CASE NO. 2010-00089

ATTORNEY GENERAL'S COMMENTS

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and tenders the following comments in the above-styled matter.

I. Summary of Plan

The joint applicants seek Commission approval of their proposed pilot program under which they will provide financing for energy efficiency upgrades to customers. These funds would then be paid back by the customers as part of their monthly electric bill.

The application provides that customers' homes will be audited by the joint applicants and that a list of possible energy efficiency upgrades will then be presented to the customers, along with the potential energy savings resulting from each upgrade. Potential upgrades to the customers' homes would be limited to those upgrades which could be paid for within 15 years or within 75% of the average expect life of the measure to be installed, whichever is less. 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. Once a project budget is established and the list of potential upgrades has been determined, the customers will then choose which upgrades they wish to install.

After the customers have reached their decisions, the joint applicants will provide the customers a list of contractors that are approved to install the upgrades. The joint applicants would provide only limited project oversight during the construction phase but would re-audit the customers' homes once the upgrades are completed to evaluate the actual savings achieved. Once the customers and the joint applicants are satisfied that the work has been completed correctly, the joint applicants would pay the contractor(s) directly for the cost of the upgrades. Upon the acceptance, the customers would start to payback the funds as part of their monthly electric bill.

In the event of a sale or other transfer of the property, the joint applicants propose to require the new tenants or homeowners to continue the payments on the monthly electric bills until such time as the funds advanced by the joint applicants are paid in full. The joint applicants propose that disclosure of the terms of the transaction would take place in one of two ways. First, the joint applicants intend to utilize a Uniform Commercial Code (UCC) fixture filing in the county clerk's office where the property is located to ensure that a title search would disclose the existence of the lien, and second, the joint applicants would require the current owner to disclose the existence of the lien prior to the sale to any potential buyers. 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.

The joint applicants propose a life of two (2) years for the pilot program and, if the program is approved, will evaluate the performance of the pilot program and file their report(s) with the Commission after the termination of the pilot program.

II. Attorney General's Comments

From a general perspective, the Attorney General applauds joint applicants' initiative and notes that the proposed program is a departure from DSM programs currently sponsored by other electric utilities. Specifically, under the typical DSM program, the costs associated with the individual homeowner's upgrades are socialized over the entire ratepayer class. However, under the program proposed by the joint applicants, the party that benefits from the energy efficiency upgrades is the party that pays for the entire cost of the upgrades. While the Attorney General believes that this method of allocating the costs to the party that receives the benefits is superior to the traditional method of socializing costs over the entire rate class, the Attorney General does have specific concerns regarding the application. These concerns leave the Attorney General unable to recommend approval of the program as filed.

As an initial matter, the time period for the repayment of the loan as proposed by the company is 15 years or 75% of the average life expectancy of the measure (not to exceed 15 years). The Attorney General believes that this is too long for a pilot project of this nature given the pay-back period proposed in the program. In particular, if the program is not renewed after the end of the pilot project, there could be ratepayers stranded for a significant amount of time with these costs added to their bill. Therefore, the Attorney General recommends for the pilot program that a five (5) year payback period be utilized. While a shorter repayment period would have the effect of reducing the budget for the potential upgrades available to ratepayers, as this is

the first experiment in Kentucky with this type of financing arrangements, the Attorney General believes a shorter repayment period is more appropriate for a pilot project.

An additional concern is that the estimated life of the improvement may be much longer than the consumer is actually able to use it. For example, a heat pump system can last up to approximately 20 years; therefore 75% of the estimated life would 15 years. The program as described in the application would set up the repayment period for a heat pump replacement project using a 15 year life expectancy for the amortization period. However, if the system fails and must be replaced after 10 years, the ratepayer would still be required to pay the remaining balance to the joint applicants for the original upgrade for another 5 years. This would be in addition to the costs which the ratepayer would incur in obtaining a new heat pump system to replace the failed unit.

Another concern is that while it is understandable that the company cannot guarantee savings from the upgrades, it is entirely possible for the consumer to have a significantly higher electric bill after the upgrades due to the fact that his/her energy usage/behavior, and perhaps even energy costs, may change. The joint applicants propose to set the repayment amount in conjunction with the average monthly bill such that the ratepayer's electric bill will be approximately 90% of the bill prior to the installation of the upgrade. While the joint applicants are proposing the higher amount so that the project budget can be increased, allowing more costly upgrades to be performed, this level is too high and does not allow for the fact that the upgrades may not perform as advertised. Thus, it would be better to have a lower threshold to ensure that even if the upgrades don't perform exactly as expected or the ratepayer's energy usage changes, the ratepayer will not be surprised with an average bill that is higher than before

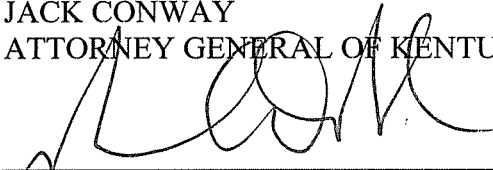
the upgrades. The Attorney General would recommend that the electric bill plus any upgrade costs not exceed 75% of the average bill prior to the upgrades.

Next, the joint applicants assert that the funds provided to the ratepayer for the upgrades are not loans in the typical sense and that advancement of these funds do not constitute a consumer loan under either federal or Kentucky law, both of which would require standard notices and protections to the consumer. The Attorney General has not studied this issue in detail; however, on its face, the joint applicants are proposing to provide funds to consumers for the purpose of installing energy efficiency upgrades to improve the ratepayer's home. These funds are to be paid back in full, with interest. Clearly, this would meet a layman's definition of a consumer loan. If an authority having jurisdiction was of the same opinion and characterized the funds advanced as a consumer loan, the joint applicants would be required to comply with the numerous requirements for organizations making loans to consumers and open them up to possible penalties for their failure to meet these requirements. The Attorney General strongly suggests that the joint applicants review the relevant law in this area to ensure they comply with all statutes and regulations.

In light of the above comments and concerns, the Attorney General does not recommend the Commission approve the Application.

Respectfully submitted,

JACK CONWAY
ATTORNEY GENERAL OF KENTUCKY



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CERTIFICATE OF SERVICE AND NOTICE OF FILING

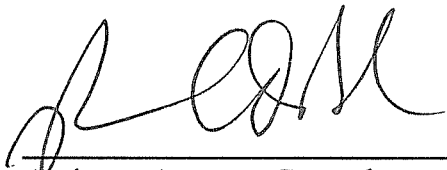
I hereby give notice that this the 17th day of August, 2010, I have filed the original and ten copies of the foregoing with the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 and certify that this same day I have served the parties by mailing a true copy of same, postage prepaid, to those listed below.

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