

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on October 14, 2010

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman
Patricia L. Acampora
Maureen F. Harris
Robert E. Curry, Jr.
James L. Larocca

- CASE 07-M-0548- Proceeding on Motion of the Commission
Regarding an Energy Efficiency Portfolio
Standard.
- CASE 08-E-1019 - Petition of Central Hudson Gas & Electric
Corporation for Approval of an Energy
Efficiency Portfolio Standard (EEPS) "Fast
Track" Utility-Administered Electric Energy
Efficiency Program.
- CASE 08-E-1135 - Petition of Central Hudson Gas & Electric
Corporation for Approval of an Energy
Efficiency Portfolio Standard (EEPS) Utility-
Administered Electric Energy Efficiency
Program.
- CASE 09-G-0363 - Petitions for Approval of Energy Efficiency
Portfolio Standard (EEPS) Gas Energy Efficiency
Programs.

ORDER APPROVING A PETITION TO PROVIDE 0% FINANCING AS PART OF
SMALL COMMERCIAL BUSINESS DIRECT INSTALL AND MID-SIZE COMMERCIAL
BUSINESS PROGRAMS

(Issued and Effective October 18, 2010)

BY THE COMMISSION:

INTRODUCTION

In this Order, the Commission grants the relief sought
by Central Hudson Gas & Electric Corporation ("Central Hudson")

in its June 15, 2010 petition. The petition requests approval of a zero percent financing option for customers participating in the company's Small Commercial Business Direct Install and Mid-Size Commercial Business Energy Efficiency Portfolio Standard (EEPS) programs. This option will allow commercial customers participating in the two programs to finance, at zero percent for up to 24 month, their portion of the costs of installing approved energy efficiency measures.

BACKGROUND AND SUMMARY

In January 2009 as part of the EEPS program, the Commission approved Central Hudson's Small Business Direct Installation Program through 2011.¹ The Small Business Program provides Central Hudson's small non-residential electric customers (demand under 100 kW) with energy audits, implementation assistance and rebates for a prescribed list of electric energy efficiency equipment installed at the customer's location. The annual budget for the program is approximately \$6.0 million. In October 2009, the Commission approved Central Hudson's Mid-Size Commercial Business Program.² This program also offers energy audits and implementation services, as well as rebates for the installation of energy efficient lighting,

¹ The Small Commercial Business Direct Install Program was approved in Case 08-E-1019, et al., Central Hudson Electric "Fast Track" Energy Efficiency Portfolio Standard (EEPS) Programs, Order Approving "Fast Track" Utility-Administered Electric Energy Efficiency Programs with Modifications (issued January 16, 2009).

² The Mid-Size Commercial Business Program was approved in Case 08-E-1135, et al., Central Hudson Energy Efficiency Portfolio Standard (EEPS), Order Approving Certain Commercial and Industrial Customer Energy Efficiency Programs with Modifications (issued October 23, 2009).

heating, ventilation and air conditioning (HVAC), and other custom measures. The annual budget for the Mid-Size Commercial Business Program is approximately \$1.2 million. On June 15, 2010, Central Hudson submitted a petition requesting authorization to provide a zero percent financing option for the customers participating in either the Small Business Direct Installation Program or the Mid-Size Commercial Business Program (collectively Programs).³

CENTRAL HUDSON'S PROPOSAL

Central Hudson proposes to establish a revolving loan fund of \$1.5 million to allow customers participating in the Programs to finance the customer portion of the cost of qualified energy efficiency measures. Central Hudson believes that the availability of its proposed financing option will increase participation in the Programs. Central Hudson indicates that it will be able to administer the financing option for an estimated cost of \$8,500 through December 2011. Central Hudson's proposal does not include a request for any incremental funds for establishment of the revolving loan fund or the cost to administer the financing option. Rather, Central Hudson indicates that sufficient funds are available from the rebate portion of the Programs' budgets to establish and maintain the revolving loan fund without detriment to its ability to administer the rebate portion of the Programs. It also states that the administrative costs of the financing option can be funded from existing EEPS administrative budgets.

³ Niagara Mohawk Power Corporation d/b/a National Grid is currently offering a similar financing option as part of its Small Business Services Energy Efficiency Program.

Central Hudson proposes to require a written loan application and will retain the right to deny participation to payment-troubled accounts. The proposed financing option will allow customers to finance their eligible costs over a term of 12 or 24 months at 0% financing with no prepayment penalty. Central Hudson indicates that the loan statement will not be shown on the customer's utility bill, but may be included in the billing envelope if Central Hudson can develop the ability to synchronize the loan statement with the customer's normal billing cycle. Central Hudson states that it is assuming an average loan amount of \$8,000. It is also assuming that 14 customers per month will participate in the financing option through December 2011. Because the company lacks empirical data to support these estimates, it requests the flexibility to revise the size of the revolving loan fund as needed to meet market demand. Central Hudson proposes to notify Staff and gets its concurrence prior to increasing the fund by more than 20%.

NOTICE OF PROPOSED RULE MAKING

A Notice of Proposed Rulemaking concerning the Commission's consideration of Central Hudson's petition and the inclusion of zero interest financing for energy efficiency projects installed through utility EEPS programs for small and mid-size commercial customers in general was published in the State Register on July 7, 2010 (SAPA 07-M-0548SP23). The minimum time period for the receipt of public comments pursuant to the State Administrative Procedure Act (SAPA) regarding that notice expired on August 23, 2010. The comments are summarized below.

SUMMARY OF PUBLIC COMMENTS

On August 18, 2010, New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation (NYSEG/RG&E) submitted joint comments. On August 23, 2010 Niagara Mohawk Power Corporation, The Brooklyn Union Gas Company and KeySpan Gas East Corporation (National Grid Companies) submitted joint comments and Alliance Energy Solutions (Alliance) submitted its own comments. Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc. (Con Edison/O&R) received an extension to respond to the Notice of Proposed Rule Making and submitted joint comments on September 7, 2010.

Alliance supports Central Hudson's petition. Alliance states that many small businesses do not have capital to fund energy efficiency projects even when the energy savings is significant and that zero percent financing helps overcome this adoption barrier. Alliance believes that customers prefer zero or low-interest, utility-based financing options over third-party financing. Alliance states that utility-based financing allows commercial customers to maintain sight of the effectiveness and overall return of the project and gives customers a sense of security that the utility endorses and supports the underlying energy efficiency program.

NYSEG/RG&E recognize the potential that financing options may have in enhancing customer participation in EEPS programs and do not oppose Central Hudson's petition. However, NYSEG/RG&E state that zero percent financing options are program-specific and as such, should not be mandated on a generic basis for all New York State utilities. NYSEG/RG&E state that it is preferable for utilities to work with third parties to arrange necessary financing and point to their own efforts in establishing a third-party option for their Small

Business Direct Install programs. NYSEG/RG&E further state that they are considering a pilot program to allow a participating customer to pay its portion of the project costs over time through the customer's chosen payment vehicle including credit cards, or Paypal, etc., with no additional program charge. According to NYSEG/RG&E, these types of financing options are attractive to customers, avoid the possibility of ratepayers subsidizing bad debt and allow utilities to concentrate on their core business. Finally, NYSEG/RG&E state that allowing utilities to work with existing financing structures encourages innovative financing mechanisms that may increase customer participation.

The National Grid Companies state that they have been offering zero-interest on-bill financing to participants in the Niagara Mohawk service territory Small Businesses Program since April 2009. The National Grid program provides customers with the option of either financing their portion of the project cost over 12 or 24 months or making a one-time payment (in full) on their electric bill, in which case they are eligible for a 15% discount on the project costs. The National Grid Companies state that providing a financing option allows certain customers the ability to address financial barriers to energy efficiency improvements. The National Grid Companies state that they have offered on-bill repayment to over 1,900 customers in the Niagara Mohawk territory with a negligible default rate (i.e., less than 1%). The National Grid Companies support Central Hudson's petition and state that their own experience indicates that zero-interest financing can enable customers to reduce energy costs while contributing to the goals of EEPS.

Con Edison/O&R support authorizing utilities to offer financing options using previously-approved EEPS funds but oppose any requirement that utilities adopt an on-bill financing

program. Con Edison/O&R would also support providing financing to residential and large commercial customers, if proposed by a utility and such utility is allowed to develop its own program specific to the needs of its service territory. Con Edison/O&R state that access to capital for large upfront costs or even smaller monthly payments is often a barrier for energy efficiency adoption amongst all types of customers. They also point out that even when commercial customers have available capital and energy efficient measures make economic sense, customers often choose to use capital for items more closely related to their core business. Con Edison/O&R state that on-bill or other utility-involved financing could present a number of legal and practical issues and suggest these issues could be avoided by third-party financing options. Con Edison/O&R point to a number of existing third-party energy efficiency financing solutions that they feel are successful. Con Edison/O&R state that they are exploring third-party financing options and plan to submit a summary of those efforts in the near future.

DISCUSSION

We agree with Central Hudson that zero-percent financing lowers capital costs which may be a barrier to customer adoption of energy efficiency measures. We also agree with Con Edison/O&R that the energy efficiency decisions of customers are complex and often include non-economic factors that cannot be addressed solely with financing. However, because of the potential benefits, and apparently very limited risk involved in Central Hudson's proposal, we approve the proposal as described below.

Lack of access to capital is a potential barrier to energy efficiency adoption and we applaud Central Hudson's efforts, as well as those by other utilities, to target this

barrier by providing a financing option to their customers. Although we recognize that financing is not a panacea and may raise some of its own issues, we believe that Central Hudson's proposal will offer some benefits and presents limited downside. Providing no-cost financing should allow some customers who would participate but for their lack of upfront capital an opportunity to do so. It is not clear to us how many customers do not participate solely for this reason. However, because Central Hudson represents that sufficient funding is available within existing budgets to fund and administer the financing program without impairing the utility's ability to provide program rebates, we believe the positive potential outweighs the negative. This is particularly apparent in light of the extremely low default rate reported by the National Grid Companies in Niagara Mohawk's service territory.

Central Hudson requests authorization to revise the size of the revolving loan fund by up to 20% (\$300,000) as it determines necessary. The novelty of administering the program for Central Hudson makes it difficult to develop reliable participation estimates, and for this reason we will allow Central Hudson to increase the revolving loan fund up to 20% (\$300,000) as requested. If Central Hudson wishes to increase the size of the loan fund by more than 20%, it shall provide Staff with notice of its intent and desire to implement an increase, any data supporting the need for the increase and any other information as Staff requires. Central Hudson may implement the increase above 20% if the Director of the Office of Energy Efficiency and the Environment certifies that, on the basis that the company has made an adequate showing, such increase (a) will not result in net reductions in energy savings and (b) does not appear to be detrimental in any other manner to Central Hudson's EEPS programs.

Central Hudson did not provide a breakdown of the cost to provide financing by program. Therefore, we are approving Central Hudson's financing proposal and \$1.5 million revolving loan fund in aggregate for both the Small Business Direct Installation Program and Mid-Size Commercial Business Program. However, we direct Central Hudson to maintain the currently approved budget allocation between the two programs. We will allow Central Hudson to reallocate up to 10% of the total annual budget for each program under the same conditions and processes previously approved in the June 24, 2010 EEPS Order.⁴ We direct Central Hudson to report to Staff on a monthly, quarterly and annual basis: (1) the number of loans issued; (2) the term and total amount financed for each loan; (3) the total amount of financing outstanding; (4) the number of loans in arrears; and (5) the total amount in arrears. Our approval of this petition does not alter the MWh savings goals previously approved for Central Hudson's EEPS programs.

At this time we will not require other utilities to adopt financing options for their EEPS programs. We are encouraged by their representations that they are proactively seeking financing options and other methods of increasing EEPS participation and look forward to learning about and considering the tools and methods they develop.

SEQRA FINDINGS

Pursuant to our responsibilities under the State Environmental Quality Review Act (SEQRA), in conjunction with

⁴ Case 07-M-0548, Energy Efficiency Portfolio Standard (EEPS), Order Approving Three New Energy Efficiency Portfolio Standard (EEPS) Programs and Enhancing Funding and Making Other Modifications for Other EEPS Programs (issued June 24, 2010), pp. 43-44.

this order we find that programs modified here are within the overall action previously examined by us in Case 07-M-0548 and will not result in any different environmental impact than that previously examined. In addition, the SEQRA findings of the June 23, 2008 Order in Case 07-M-0548 are incorporated herein by reference and we certify that: (1) the requirements of SEQRA, as implemented by 6 NYCRR part 617, have been met; and (2) consistent with social, economic, and other essential considerations from among the reasonable alternatives available, the action being undertaken is one that avoids or minimized adverse environmental impacts to the maximum extent practicable.

CONCLUSION

For the reasons discussed above, the Commission grants Central Hudson's petition dated June 15, 2010.

The Commission orders:

1. Central Hudson Gas & Electric Corporation is authorized to create a \$1.5 million revolving loan fund and use such fund to provide a zero percent financing option for customers participating in the company's Small Commercial Business Direct Install Program and Mid-Size Commercial Business Program. The revolving loan fund financing option shall be implemented in a manner that is consistent with the discussion in this order.

2. These proceedings are continued.

By the Commission,

JACLYN A. BRILLING
Secretary