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Meeting Minutes: Commercial Work Group  
February 10, 2012

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**Moderators:**

Scott Smith, Smith Management Group  
Samantha Williams, Midwest Energy Efficiency Alliance

**DEDI Participants:**

Lee Colten

**Stakeholder Participants:**

Joan Pauly, USGBC	Bryan Handy, Kroger
Paul Kaplin, USGBC	Roger Hickman, Big Rivers Electric Corporation
Sarah Davasher, TVA	Sonya Dixon, Owensboro Municipal Utilities
Jeff Fugate, Lex. Downtown Assoc.	Gretchen Gillig, PSC

**I. Welcome, Introductions:**

1. Review of Dec. 2 commercial discussions
  - State and work group are not advocating any particular position.
  - Stakeholders across the State tell us that, while utility-run commercial DSM/EE programs currently exist, the commercial sector is a large untapped market for efficiency
  - These sessions are one means to find a way to capitalize on existing opportunities to make EE more accessible to Kentucky's significant commercial base, as well as learning from best practices in other states.
2. Opportunities to provide feedback outside group forum - contact Scott and/or Samantha by email, phone
3. Designation of group leader/reporter
  - No leader designated at this time, will address during follow up meeting

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## II. Roundtable Comments - Opportunities for Commercial EE in Kentucky:

### 1. Facilitator Questions –

- How do you respond to the feedback we have received that some commercial customers are unaware of utility-sponsored efficiency programs in Kentucky?
- How do we educate this sector about existing programs, and garner feedback on new programs?
- Are there existing networks in Kentucky that would be appropriate to leverage EE programs with the commercial community, ensure sound program design, etc.?

### • Utility Response

- a. Expressed surprise that commercial customers are unaware, since the IOUs tend to do a lot of advertising in these areas.
- b. That being said, small commercial businesses may be so busy trying to keep their businesses afloat that multi-media messages are somewhat off their radar.
- c. It is hard for small businesses to get away from their operations.
- d. One on one visits done by the utilities may be necessary
- e. Key is to reach the actual change agent within the particular business and provide the analytical data that will allow them to make the case to upper management.
- f. Utilities, or a contracted service, use account managers in order to create on-going relationships with businesses. Start with fairly “safe” endeavors such as lighting and HVAC. Once trust is built, then can move on to efforts that are perceived as more directly impacting the bottom line.
- g. Facilitator Comment - Small business organizations tell us that proprietors are afraid to leave their shops, because they have to be there to make sure the wheels don’t fall off.
- h. Facilitator Question – Is the size of the commercial user an indicator of receptiveness to EE programs/services?
  - i. Possibly – Some IOUs separate their commercial customer class into two sizes, i.e., programs offered specifically to small customers that use less than 100 kW peak demand.
  - ii. These small commercial users may be more amenable to assistance from utilities/State/universities, as they lack in-house expertise and access to funding, though are harder to reach

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- **Gretchen Gillig (PSC)**

\*\*\* Note - These comments are preliminary in nature and unofficial at this stage.

- a. Educational aspect might work better in non-profit settings (day-cares, churches, pre-school, afterschool programs and YMCA).
- b. Non-profits could lead by example, and that would be an interesting educational opportunity
- c. Networking through the community would get the word out.
- d. Ideas for using current networks to engage commercial sector:
  - i. Current business chambers – Use this relationship to connect utilities with business community. Who do the chambers represent? We would need an alternative route to reach smaller businesses who are not members.
  - ii. Federally-funded Main Street Program (being used right now in Frankfort, KY)
    - i. Hooked into small downtown businesses in a community, keeps downtowns vital
    - ii. Each community that’s involved would have a board, partially funded by federal dollars
    - iii. Ann Arbor program – they were working with the Main Street Program
    - iv. Where else in KY might this program be useful? Lexington, Louisville, Bardstown, Danville, Moorehead, Ashland, Bowling Green.
    - v. Target communities with colleges.

2. *Facilitator Question* – What are the most effective – and cost-effective – programs that Kentucky’s utilities are currently offering commercial customers?

- **Utility Response** - Commercial lighting and refrigeration/cooling programs are the most cost-effective
  - a. Example: The drink/food coolers in corner fuel stops found in smaller communities. What can they do to save costs in that area?
  - b. Larger grocers tend to invest in EE, because they understand that energy costs cut into their bottom line, and they will have access to capital that others do not

- **Large Commercial Customer Response** – It’s true, larger companies like Kroger, Wal-Mart, Sam’s Club, and Target seem to “get it”

- a. Two reasons:
  - i. Energy saved is profit to bottom line since margins are small.
  - ii. Have greater access to capital than smaller businesses.

iii. At the same time, they have higher expectations – access to capital, but higher premium on that capital.

3. Facilitator Question – Is limited access to capital a main impediment to successful efficiency efforts in the commercial sector?

- **Utility Response** – Yes, the question always comes back to the initial capital costs of efficiency upgrades, and the payback period
- **Large Commercial Customer Response** – Have access to capital, but they evaluate EE projects very closely before they invest in them
  - a. Benefit of operating in several states, exposure to many different models for how commercial efficiency programs are run
  - b. Oregon has a program that is very prescriptive- All commercial customers pay a DSM fee, and in return utility helps customers put together energy savings
    - i. Incentives are huge, sometimes 50% of costs
    - ii. The over-capacity utilities also offer an energy use reduction incentive fee to manage load
  - c. The commercial programs that tend to work the best are ones that offer competitive funding – where the available DSM dollars run out, creating an incentive to participate (i.e., “use it or lose it”)
    - i. In Texas, for example, once the commercial program dollars are released, they run out in 15 minutes
  - d. Facilitator Question – This sounds similar to Washington State’s Self Direct model for industrials, where all customers pay into a common pool, which is then released in two phases: 1) non-competitive phase, during which industrial customers are guaranteed access to portion of the fees; and 2) remaining funds aggregated and bid out to self-direct customers.
    - i. We’ve been told that this model helps create motivation within the corporate structure to ramp up the project process so as not to lose access to the funds
  - e. Large Commercial Customer Response – This is indeed similar to Oregon’s commercial program, and could be an interesting model in Kentucky
- **Utility** – Whenever you ask customers to pay money into a large pool that is not exclusively for their benefit, it will be controversial
  - For example, some utilities have a meter fund that then goes into a common fund to help with low income energy assistance in the winter

- This sometimes causes push-back
  - **Advocates** – At the same time, common investment in a system like Smart Meters would benefit all customers as a whole – access to real-time information on how much energy each person is using.
    - a. This would also assist with electronic billing
  - **Facilitator Question** – Are Smart Meters possible in KY right now, given the wide gap in software across Kentucky’s utilities and the significant investments required?
    - a. **Advocates Response** –
      - i. Energy Independence and Security Act looks at two things – smart grid investment and smart grid detectives
      - ii. A lot of folks in Kentucky have ideas for how to implement smart grid
      - iii. Unfortunately, Kentucky’s energy is – currently - so cheap that the significant investment in Smart Grid technology may not be cost effective
      - iv. Impact of EPA’s regs will happen over a 5-year period (environmental surcharge fee increases), so at some point the price signal might be there
4. **Facilitator Question** – Would the creation of a revolving loan fund and/or low interest funds help close the financing gap for commercial customers? How might we accomplish this?
- **Advocates Response** -
    - a. Creating an RLF and/or a low interest loan is a hard nut to crack
      - i. Would need to find capital, secure the loan.
      - ii. Interest rate would need to be below market or competitive.
      - iii. Would need to keep the administrative costs low.
      - iv. Who the loaning entity is will also matter.
    - b. MACED On-bill Financing Model may be interesting to expand upon in the State
    - c. Another option may be repurposing the bonding \$\$ from HB2
      - i. HB2 contained \$80M bond authorization, \$50M to retrofit state buildings, and \$30M to retrofit commercial buildings
      - ii. Despite authorization, bonds were never issued for a variety of reasons
      - iii. Could use the \$30M commercial bond to start an RLF – issue is securitizing the loan, to make sure it gets repaid – want income stream that’s secure
      - iv. New proposed 2012 bill would redirect \$30M in HB funds (arguably from state buildings pool) to a Green Schools Authority

- i. Could argue there's \$20M left for state buildings, \$30M for commercial property
- o **State Response** - Capital is indeed a big issue.
  - Scale of the project is a factor as well
  - For example, Performance Contracting might be useful for industry and larger municipalities
  - However, this may not be useful for smaller commercial customers – for them, tax credits, loan and grant funds, and incentives are most helpful

### **III. Next Steps**

1. Follow up call will focus on these reference materials:
  - *Kentucky's Existing Commercial Incentives*
  - *Texas LoanSTAR Program-Revolving Loan Fund*
2. March 22 collaborative meeting, Capitol Plaza Hotel, Frankfort