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April 18, 2014

VIA HAND DELIVERY

RECEIVED
APR 18 2014
PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, Kentucky 40602

RE: Case No. 2014-00034

Dear Mr. Derouen:

Enclosed for filing, please find one original and ten copies of the East Kentucky Power Cooperative, Inc. ("EKPC") responses to Commission Staff's Second Request for Information dated April 7, 2014 in the above referenced case.

If you have any questions or require additional information, please contact me.

Very truly yours,

David S. Samford

Enclosure

cc: Hon. Michael L. Kurtz

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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APR 18 2014

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR APPROVAL OF AN ECONOMIC DEVELOPMENT RIDER	)))	CASE NO. 2014-00034

MOTION TO SCHEDULE AN INFORMAL CONFERENCE

Comes now the East Kentucky Power Cooperative, Inc. ("EKPC"), by counsel, and moves the Kentucky Public Service Commission ("Commission") for an Order scheduling an Informal Conference in this case. In support of this Motion, EKPC states that it believes an Informal Conference in this matter would be beneficial for all parties. The purpose of the Informal Conference would be to discuss any and all issues pertaining to this case. EKPC also notes that Jackson Energy Cooperative Corporation ("Jackson Energy") is filing a motion for an informal conference in its companion case (Case No. 2014-00047) and requests that any informal conference scheduled in this case be held simultaneously with any informal conference in Jackson Energy's case. Finally, EKPC requests that an Informal Conference be scheduled prior to May 5, 2014, which is the deadline for EKPC to request or waive a hearing in this matter.

WHEREFORE, EKPC respectfully requests that the Commission enter an Order scheduling this matter for an Informal Conference.

This 18th day of April, 2014.

Respectfully submitted,

David S. Samford
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Counsel for East Kentucky Power Cooperative, Inc.

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing has been served, by delivering same to the custody and care of the U.S. Postal Service, postage pre-paid, this 18th day of April, 2014, addressed to the following:

Mr. Michael L. Kurtz, Esq.
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, Ohio 45202

Counsel for East Kentucky Power Cooperative, Inc.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR APPROVAL OF AN AN ECONOMIC DEVELOPMENT RIDER	**)))**	**Case No. 2014-00034**

RESPONSES TO COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.

DATED APRIL 7, 2014

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2014-00034

PUBLIC SERVICE COMMISSION REQUEST DATED 04/07/14

East Kentucky Power Cooperative, Inc. ("EKPC") hereby submits responses to the Second Request for Information contained in the Order of the Public Service Commission ("Commission") in this case dated April 7, 2014. Each response with its associated supportive reference materials is individually tabbed.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR APPROVAL OF AN AN ECONOMIC DEVELOPMENT RIDER	)))	**Case No. 2014-00034**

CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Isaac S. Scott, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Second Request for Information in the above-referenced case dated April 7, 2014, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

Isaac S. Scott

Subscribed and sworn before me on this 18th day of April, 2014.

Gwyn M. Willoughby
Notary Public #500144

GWYN M. WILLOUGHBY
Notary Public
State at Large
Kentucky
My Commission Expires Nov 30, 2017

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2014-00034
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 04/07/14
REQUEST 1
RESPONSIBLE PARTY: Isaac S. Scott

Request 1. Refer to the response to Item 6.c. of Commission Staff's Initial Request for Information ("Staff's First Request"). The response states that "[a]ssuming the EDR customer's special contract became effective in 2013 after the applicable PJM Incremental Auction, there would not have been a separate charge for any purchased capacity." Provide a response to this request with the assumption that the EDR customer's special contract became effective in 2013 before the applicable PJM Incremental Auction.

Response 1. If the EDR customer's special contract became effective in 2013 before the applicable PJM Incremental Auction, the additional load would have been included in EKPC's expected peak load requirement that would have been provided in conjunction with the 2013 PJM Incremental Auction. EKPC's expected peak load requirement would be compared with the coincident PJM peak load requirement.[1] It is possible that as a result of this comparison there would be no need for EKPC to arrange to secure additional capacity, and thus no additional cost would have appeared on the billing for January 2014 service. Conversely, if additional capacity was needed, EKPC would have made arrangements to secure the capacity and the appropriate cost would have appeared on the billing for January 2014 service pursuant to the provisions of the EDR special contract.

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[1] The PJM peak load requirement is based on the previous year's actual peak load and anticipated load growth for all of PJM.

Request 6c of the Staff's First Request stated "Explain how a customer would have been affected had the customer been an EDR customer pursuant to EKPC's proposed tariff in January 2014. Include in the response a sample bill and the supporting calculations for the amounts included on the bill." As noted in EKPC's response to Request 6c, the preparation of a sample bill for an EDR customer requires additional information in order to provide an accurate response. EKPC does not directly bill the retail customers of its Member Distribution Cooperatives ("Members").

In Case No. 2014-00047, Jackson Energy Cooperative Corporation ("Jackson Energy") in its response to Request 5d of the Commission Staff's Initial Request for Information dated March 21, 2014, provided a sample bill for an EDR customer pursuant to Jackson Energy's proposed tariff in January 2014. Jackson Energy based the sample bill on the following assumptions:

1) The EDR customer was a new customer who was billed under EKPC's Rate B and Jackson Energy's Rate Schedule 47.

2) The EDR contract called for a three-year discount period and the January 2014 bill fell in the first 12 months of the EDR contract. The discount would be 30 percent.

3) The parties agreed in the EDR contract that the discount would be based on EKPC's Rate B. The demand charge under Rate B is $7.17 per kW.

4) The billing load was 500 kW and assuming a 60 percent load factor, the billed energy was 219,000 kWh; there was no excess demand in the billing month.

Utilizing these assumptions, the sample bill for January 2014 would be:

Customer Charge (per Schedule 47)	$ 1,079.86
Demand Charge (500 kW x $6.84)	3,420.00
Demand Discount (500 kW x ($7.17 x 30%))	-1,075.50
Energy Charge (219,000 kWh x $0.05206)	11,401.14
FAC (219,000 kWh x $0.00224)	490.56
Environmental Surcharge (Net Bill x 10.26%)	1,571.43
School Tax (3%)	506.62
Sales Tax (6%)	1,043.65
Total Sample Bill	$18,437.76

EKPC believes the sample bill provided by Jackson Energy is a reasonable representation of what a billing for an EDR customer would look like.

EKPC recognizes that Jackson Energy's response assumed the EDR customer's special contract became effective in 2013 after the applicable PJM Incremental Auction. Reviewing the information EKPC provided to PJM in conjunction with the 2013 Incremental Auction and a billing load of 500 kW, EKPC has concluded that there would have been no need for it to arrange to secure additional capacity, and no additional cost would have appeared on the billing for January 2014 service.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2014-00034
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 04/07/14
REQUEST 2
RESPONSIBLE PARTY: Isaac S. Scott

Request 2. Refer to the response to Item 6.d. of Staff's First Request. The response states, "It is possible that the cost of the purchased capacity could be more than the monthly discount of the tariff demand charge. The likelihood could be greater in the last year of the discount period, when the discount percentage is only 10 percent." State whether eligible customers will be made aware of this possibility.

Response 2. Yes. EKPC anticipates during the special contract negotiations with the appropriate Member and the potential customer that all cost components will be explored and discussed thoroughly. This would include the operation of the demand charge discount provision and the determination of possible purchased capacity costs.

In all cases, service under the EDR is conditioned upon the execution of a special contract between EKPC, the Member, and the customer. That special contract in turn must be filed with, and approved by, the Commission. In its September 24, 1990 Order in Admin. 327,[2] the Commission established a set of guidelines for EDRs including the requirement that EDRs should be offered by special contract rather than by general tariffs. In Case No. 2004-

[2] Administrative Case No. 327, *An Investigation into the Implementation of Economic Development Rates by Electric and Gas Utilities.*

00253,[3] Duke Energy Kentucky ("Duke Energy") requested to establish EDR tariffs based on its belief that there had been significant changes in circumstances since the 1990 decision in Admin. 327. According to Duke Energy, the most significant of those changes was the widespread use of the Internet by customers to research utilities' available tariffs. Duke Energy argued that the absence of a tariffed incentive rate might discourage a new or existing customer from making further inquiry, particularly when utilities in other states had incentive rate tariffs.[4] In its April 19, 2005 Order, the Commission observed "Although the Commission determined in Admin. 327 that economic development rates should be offered by special contract rather than by a tariff, ULH&P's amended EDR tariffs are consistent with that guideline. ULH&P's tariffs condition the incentive rates on the negotiation of a customer-specific contract, which should all but ensure that incentives will be offered only when necessary."[5]

EKPC views the proposed EDR tariff as a means to make potential customers aware that it is willing to consider an EDR when certain baseline criteria are satisfied. While the proposed EDR tariff does provide a basic outline of the EDR provisions, it is the negotiated special contract that will contain the specific terms and conditions of the incentive, not the tariff. And the special contract will be filed with and subject to the Commission's approval.

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[3] Case No. 200-00253, *Application of The Union Light, Heat and Power Company for Approval of Its Proposed Economic Development Riders*. At the time of the application, Duke Energy was known as The Union Light, Heat and Power Company ("ULH&P").
[4] Case No. 2004-00253, April 19, 2005 Order, page 3.
[5] *Id.*, page 6.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2014-00034
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 04/07/14
REQUEST 3
RESPONSIBLE PARTY: Isaac S. Scott

Request 3. Refer to the response to Item 7.c. of Staff's First Request, which states that it is unclear to what "free rider" problem the request is referring. Page 14 of the Commission's Order in Administrative Case No. 327 ("Admin. 327") addresses the free rider issue:

> On the other hand, however, the Commission realizes that customers do not require identical incentives in order to locate a new facility in a particular area or to expand existing operations. In fact, for some customers, utility rate incentives may not even be a factor in their locational or expansionary decision-making process. Customers who would have decided to locate in Kentucky or expand existing operations even in the absence of rate discounts, but who would take advantage of EDRs that are offered to all new or expanding customers, in effect, become "free riders" on the utility system at the expense of all other ratepayers.

Within the context expressed above, explain whether a free rider problem will be created by offering an EDR contract to a new customer that has already located its facility in EKPC's service territory with no EDR discount incentive to do so.

Response 3. Electricity prices are an important factor in the locational decision-making process. The Kentucky Cabinet for Economic Development ("KCED") cites on its webpage low electricity rates as one of the top ten reasons for locating or expanding a business in Kentucky. KCED states "Among the more significant location factors having a direct influence on bottom-line costs is the annual capital that must be committed to utility consumption. Kentucky has the lowest cost of electricity in the industrial sector among states east of the Mississippi River and the 4th lowest in the U.S., coming in at more than 25 percent lower than the national average."[6] The advertised availability of incentives such as this proposed EDR are very important during the initial search for a location to establish or expand a facility, especially considering the competition among utilities to attract or retain customers in their respective service territories.

EKPC does not believe a significant free rider problem would be created by offering an EDR contract to a new customer that has already located its facility in EKPC's Members' service territory with no initial EDR discount incentive to do so. While the fact that a facility is already being served by EKPC and one of its Members may provide some incentive for the existing customer to expand the existing facility, it is just as likely that the customer will explore other facilities it owns, such as redeveloped brownfields or greenfield sites – all of which may be located elsewhere in Kentucky, the United States or abroad – as potential expansion locations. In other words, EKPC must compete for expansion projects just as much as it competes for new projects. As was noted in EKPC's response to the Staff's First Request, Request 7a, there is only one new customer who began service on or after January 1, 2013 that EKPC would consider eligible for the EDR.

To get an understanding of the business climate EKPC and its Members deal with, please see EKPC's confidential response to the Staff's First Request, Request 12.

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[6] Please see http://www.thinkkentucky.com/KYEDC/TopTen.aspx .

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2014-00034
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION DATED 04/07/14
REQUEST 4
RESPONSIBLE PARTY: Isaac S. Scott

Request 4. Refer to the response to Item 13 of Staff's First Request. The response states that EKPC does not charge for a meter associated with a contract load, but it proposes to keep the provision in the EDR tariff that customers be responsible for the cost of the installed meter "in the event that current policy is revised in the future."

Request 4a. State whether EKPC believes that the EDR tariff would be misleading if the provision were to remain.

Response 4a. EKPC does not believe it is misleading for the EDR tariff to state the cost of a customer-specific meter installation shall be recovered from the customer. Instead, EKPC believes this provision is consistent with finding number 9 contained in the Commission's September 24, 1990 Order in Admin. 327, page 26 which states "All EDR contracts should include a provision providing for the recovery of EDR customer-specific fixed costs over the life of the contract." Retaining the provision stresses that customer-specific costs will be recovered from the customer rather than be socialized across all customers. The fact that EKPC does not currently charge for such a meter installation will be disclosed during the contract negotiations.

Request 4b. Explain why it would not be more appropriate to delete the provision from the proposed tariff and file a revision to the tariff at a later date if the current policy is revised.

<u>**Response 4b.**</u> EKPC views the proposed EDR tariff as a means to make potential customers aware that it is willing to consider an EDR. While the proposed EDR tariff does provide a basic outline of the EDR provisions, it is the negotiated special contract that will contain the specific terms and conditions of the incentive, not the tariff. During the negotiations for the special contract, all cost components will be explored and discussed thoroughly. The potential customer will be aware of these costs prior to the special contract being finalized and filed with the Commission for approval.