

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER	)	
COOPERATIVE, INC. FOR APPROVAL TO	)	CASE NO.
ENTER INTO A THREE-YEAR PURCHASED	)	2011-00125
POWER AGREEMENT	)	

O R D E R

On April 5, 2011, East Kentucky Power Cooperative, Inc. ("East Kentucky") filed an application for authority to enter into a purchased power agreement with Ameren Energy Marketing Company ("Ameren Energy"). The proposed purchase was for 50 MW on an around-the-clock basis for three years, beginning January 1, 2012 and continuing through December 31, 2014. Ameren Energy had quoted a price for the power, but the price was not to be set until East Kentucky had authority to enter into the agreement. Consequently, East Kentucky requested approval to enter into the agreement at a "not to exceed" price in the event that the actual price exceeded the price quoted earlier.

The price as quoted by Ameren Energy did not include capacity, energy losses, planning reserves, or any market-related charges. Transmission service was also not included in the quoted price, and the agreement was contingent upon East Kentucky being able to obtain firm point-to-point transmission service. East Kentucky requested and was granted confidential protection for the price as quoted by Ameren Energy on the basis that its public release could result in a competitive disadvantage to East

Kentucky by giving power marketers and competitors an unfair commercial advantage. Due to the three-year term of the contract and the firm payment obligations, the agreement constitutes an evidence of indebtedness and East Kentucky seeks approval as such under KRS 278.300(1).

East Kentucky's application included a projection that its winter peak load will increase from 3,033 MW in 2012 to 3,101 MW in 2014, an increase of 68 MW; while its summer peak load is projected to increase by 46 MW over this same three-year period. A prior purchased power agreement was in effect for 150 MW during the 2011 winter peak season. That purchase, which was for power on a daily, firm basis during the 16 peak hours per day, expired on February 28, 2011. East Kentucky authorized ACES Power Marketing to solicit bids for power on its behalf. The solicitation requested 100 MW for the 2012 and 2013 winter season and 50 MW for the three years 2012 through 2014. It was a bid received in response to this latter solicitation that formed the basis of East Kentucky's application as originally filed.

On July 20, 2011, East Kentucky filed a motion to amend its application, along with an amended application. The motion to amend states that the proposed purchased power agreement with Ameren Energy was contingent upon obtaining a firm transmission path from the Tennessee Valley Authority ("TVA"). However, since the filing of the original application, TVA has conducted a system impact study and informed East Kentucky that firm transmission capacity for this 50 MW purchase is not available on TVA's system.

The amended application requests authority to enter into a 50 MW purchased power agreement with any reasonable supplier, for the same three-year term as the

originally proposed Ameren Energy purchase. The pricing for this 50 MW generic power purchase is anticipated to average approximately \$41/MWh over the three years, plus \$2/MWh for transmission congestion. East Kentucky expects to be able to purchase power at the AD Hub (American Electric Power/Dayton Power and Light Company), with the power transmitted to the South Export delivery point, where East Kentucky already has 400 MW of firm transmission rights. Due to the uncertainty of the pricing, East Kentucky is requesting approval to enter into the purchase at a price not to exceed the three-year calendar-year average AD Hub price listed in the Megawatt Daily publication on the day after the Commission's approval of the purchase, plus the \$2/MWh for transmission congestion. East Kentucky also requests that the Commission amend the original caption of this case by deleting the reference to Ameren Energy.

The original application and the amended application were supported by economic analyses showing that a purchase of 50 MW of power would result in lower costs than purchasing power in the PJM Interconnection ("PJM") hourly market on an as-needed basis. In response to the Commission Staff's second request for information, East Kentucky filed, on October 21, 2011, a further updated analysis comparing the total variable cost to serve its native load customers without the 50 MW purchase and with the 50 MW purchase. That analysis showed that the 50 MW purchase would result in a three-year gross savings of approximately \$7.3 million, and a net savings of approximately \$4.7 million after deducting firm transmission costs of approximately \$2.6 million. The savings in variable costs are a result of both avoiding higher-priced power purchases in the PJM hourly market and changes in East

Kentucky's system generation costs due to re-dispatching to reflect the 50 MW firm power purchase.

East Kentucky's October 21, 2011 data responses also included an updated load forecast that was approved by its Board of Directors on July 12, 2011. Although its projected load over the next three years is lower than the projections set forth in its original application, its winter peak load will still increase from 3,015 MW in 2012 to 3,070 MW in 2014, an increase of 55 MW; while its summer peak load is projected to increase by 36 MW over this same three-year period. Utilizing a 12 percent reserve margin, East Kentucky will have a winter capacity deficiency of 184 MW in 2012, rising to 320 MW in 2014, and an annual energy deficiency ranging from just over 3.1 million kWh in 2012 to almost 3.6 million kWh in 2014.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that East Kentucky will be able to serve its native load customers over the 2012-2014 time frame at a lower variable cost if it purchases 50 MW of firm power on a year-round basis at a price of \$41/MWh, plus \$2/MWh for transmission congestion. Since East Kentucky does not have a firm commitment from a seller at the \$41/MWh price, its request for authority to enter into such a purchase at a price not to exceed the three-year calendar year average AD Hub price listed in the Megawatt Daily publication on the day after approval of the purchase is reasonable, provided that the cost of the purchase plus transmission charges results in a lower variable cost than would be incurred without the purchase. In addition, the Commission finds good cause to revise the caption of this case by deleting the reference to Ameren Energy, and the caption of this Order reflects the revision.

The Commission further finds that, if East Kentucky elects to enter into a 50 MW purchase of power for three years, it should file a report setting forth the following information within ten days of entering into the purchase:

1. The seller's name;
2. The prices to be paid for the power and for the transmission;
3. A copy of Megawatt Daily as published on the day after the date of this Order showing the three-year calendar-year average AD Hub power price; and
4. An analysis of the total variable cost to serve native load customers each month without and with the 50 MW purchase, in the same format as filed in its October 21, 2011 data response.

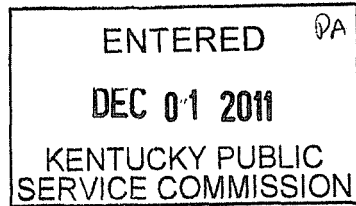
Finally, while the Commission is approving the amended application on the condition that a three-year power purchase reduces total variable cost, no issue has been raised and no finding is made as to whether any of the cost to purchase power is eligible for recovery under East Kentucky's Fuel Adjustment Clause ("FAC"). Any issue of cost recovery under the FAC will be reviewed if raised by East Kentucky in a filing pursuant to the Commission's FAC regulation, 807 KAR 5:056.

IT IS THEREFORE ORDERED that:

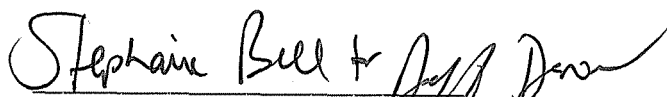
1. East Kentucky's motion to file an amended application and revise the caption of the case is granted.
2. East Kentucky is authorized to enter into a firm purchase of 50 MW of power for 2012-2014 at a price not to exceed the three-year calendar-year average AD Hub price listed in the Megawatt Daily publication on the day after the date this Order is entered on the condition that the purchase results in a lower total variable cost.

3. Within ten days of entering into a power purchase as authorized herein, East Kentucky shall file a report as described in the findings above. The report shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission



ATTEST:

  
Executive Director

Case No. 2011-00125

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