

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

SETTING RATES AND TERMS )	CASE NO. 8566
AND CONDITIONS OF PUR- )	(A) Kentucky Power Company
CHASE OF ELECTRIC POWER )	(B) Kentucky Utilities Company
FROM SMALL POWER PRODUCER) )	(C) Berea College Electric Utility
AND COGENERATOR BY )	(D) Louisville Gas and Electric Company
REGULATED ELECTRIC )	(E) Union Light, Heat and Power Company
UTILITIES )	(F) Big Rivers Electric Corporation, Green River Electric Corporation, Henderson-Union RECC, Meade County RECC, Jackson Purchase Electric Corporation
	(G) East Kentucky Power Cooperative, Inc., Big Sandy RECC, Bluegrass RECC, Clark RECC, Cumberland Valley RECC, Farmers RECC, Fleming-Mason RECC, Fox Creek RECC, Grayson RECC, Harrison RECC, Inter-County RECC, Jackson County RECC, Licking Valley RECC, Nolin RECC, Owen County RECC, Salt River RECC, Shelby RECC, South Kentucky RECC, Taylor County RECC

ORDER

Commentary

On April 7, 1982, the Kentucky Public Service Commission (Commission) issued its regulation on small power production and cogeneration (807 KAR 5:054). Section 210 of the Public Utility Regulatory Policies Act of 1978 (PURPA) requires each state regulatory commission to implement rules to encourage the development of this technology. The Commission's regulation establishes the procedures by which the electric utilities and the small power producer and cogenerators (qualifying facilities) can negotiate interconnection agreements for purchases and sales of electric power. These procedures constitute the first phase of a program to implement and encourage the development of this technology.

The second phase of implementing a functioning small power and cogeneration program in Kentucky is the development of tariffs which set the rates, charges and conditions of purchase from small power producers or cogenerators by each of the regulated electric utilities. Each electric utility under the Commission's jurisdiction will be required to file tariffs which reflect its unique circumstances in terms of generation mix and customer load. Each utility will have the burden of demonstrating that its tariff reflects the avoided cost criteria and other conditions specified in 807 KAR 5:054.

The Commission required that those electric utilities which have retail sales exceeding 500 million kilowatt hours provide avoided cost data on or before June 30, 1982. These data were chosen to coincide with the date of other utility data filing requirements under Section 133 of PURPA. By permitting these electric utilities to utilize these data the cost of additional data collection and analysis should be minimized in this proceeding. In addition, the extensive data base provided by Section 133 of PURPA should enhance the ability of all parties to the proceedings to understand the utility's avoided cost estimates.

In Kentucky the regulated electric utilities which either have retail sales of less than 500 million kilowatt hours or have been exempted from the data collection requirements of Section 133 of PURPA are Rural Electric Cooperative Corporations (RECCs) and Berea College Electric Utility. The RECCs and Berea College purchase their full power requirements from supplying utilities. Therefore, it is the presumption of this Commission that the

avoided costs of these utilities are best reflected by their wholesale power purchase contracts. Should these utilities disagree with this presumption, they should provide avoided cost data from their supplying utility comparable to the data required by Section 133 of PURPA.

The Commission realizes that this proceeding constitutes a new experience for the parties. However, it is the Commission's intention to expedite these hearings when possible. The Commission has determined that the use of prefiled testimony addressing the most controversial issues will serve this objective. These issues and related information which should be addressed in prefiled testimony in these proceedings are listed in Appendix A. The utility companies need not address only these issues but may include other information which will assist the Commission in its effort.

In Appendix B the Commission has included types of information which a tariff should contain to permit the qualifying facilities the maximum flexibility in assessing the short- and long-term financial feasibility of their projects. Table I should result in rates which reflect peak, off-peak and non-time differentiated purchases if the avoided cost data permit.

The Commission recognizes that capacity contracts of longer duration are more valuable to the utility for planning purposes than are those of shorter duration. Table II should provide the information on the value of capacity given various contract lengths and the initial operating date of a qualifying facility. Table III should include other terms and conditions of service

to be considered by the electric utility for purchase agreements. Appendix B should be completed for both the 100 and under kilowatt capacity qualifying facilities and the over 100 kilowatt capacity qualifying facilities.

The primary objective of the Commission in this proceeding is to facilitate an agreement between the qualifying facilities and the electric utilities for purchase of qualifying facilities' electric power. The electric utilities are required to base purchase rates on avoided cost subject to the considerations listed in 807 KAR 5:054. To minimize transactions costs the Commission will require a tariff containing standard rate and contract for qualifying facilities of 100 kilowatt and under capacity. A separate tariff should be developed for qualifying facilities of over 100 kilowatt capacity. The standard rate schedule for the qualifying facilities over 100 kilowatt capacity should serve as a starting point in the negotiation on a final agreement. The electric utilities can then justify deviations from this standard rate based on the individual supply characteristics of the qualifying facilities.

#### SCHEDULE

The Commission's regulation, 807 KAR 5:054, requires electric utilities regulated by the Commission to prepare and file tariffs for power purchased from qualifying facilities. The Commission recognizes that RECCs which have a common generation and transmission supplier will have similar avoided costs. The Commission will schedule the 18 RECCs supplied by East Kentucky

Power Cooperative, Inc. for a concurrent hearing with East Kentucky Power Cooperative. The Commission will also schedule the three RECCs supplied by Big Rivers Electric Corporation and Jackson Purchase ECC for a hearing concurrent with Big Rivers Electric Corporation.

The Commission will schedule separate purchase rate hearings for the remaining electric utilities.

The schedule for the small power and cogeneration purchase rate hearings is as follows:

- August 27 - Deadline for prefiled testimony by electric utilities
- Sept. 17 - Deadline for prefiled testimony by intervenors
- Sept. 30 - Kentucky Power Company
- Oct. 5 - Kentucky Utilities Company  
Berea College Electric Utility
- Oct. 7 - Louisville Gas and Electric Company
- Oct. 12 - Union Light, Heat and Power Company
- Oct. 14 - Big Rivers Electric Corporation
- Oct. 21 - East Kentucky Power Cooperative, Inc.

All hearings will begin at 9:00 a.m. on the day scheduled.

#### ORDER

IT IS THEREFORE ORDERED that electric utilities under Commission rate jurisdiction shall be made a party to this case for the purpose of establishing rates and service conditions applicable to small power producers and cogenerators pursuant to 807 KAR 5:054.

IT IS FURTHER ORDERED that the electric utilities identified herein shall file by August 27, 1982, a proposed tariff applicable

to small power producers and cogenerators of 100 kilowatts or less and a proposed tariff applicable to those greater than 100 kilowatts setting out applicable rates and service conditions, along with supporting cost studies and work papers.

IT IS FURTHER ORDERED that the hearing schedule herein shall be used in this proceeding in order to determine the reasonableness of the proposed tariffs.

IT IS FURTHER ORDERED that the electric utilities identified herein shall publish a notice of public hearing in general circulation newspapers within their service territories not less than 7 days nor more than 21 days prior to the scheduled public hearing stating the time, date, place and purpose of such hearing.

Done at Frankfort, Kentucky, this 22nd day of July, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohy  
Chairman

Katharine Randall  
Vice Chairman

David Paragon  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

## APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN  
CASE NO. 8566 DATED JULY 22, 1982.

1. Describe methods used to contact and identify potential small power producers and/or cogenerators in your service area. Provide the number of contacts with potential small power producers and/or cogenerators that have been made since 1978. Estimate the potential number of megawatts of electric power involved in these discussions.
2. Explain the method used to determine costing periods. Provide all workpapers.
3. Explain the method used to determine avoided capacity costs. Provide all assumptions and workpapers.
4. Explain the method used to calculate carrying charges. Provide all assumptions and workpapers.
5. Explain the method used to determine avoided energy costs. Provide all assumptions and workpapers.
6. Provide copies of all firm purchase power agreements for the period 1982-1992.
7. Provide a copy of current wholesale power contract if it was not filed with avoided cost data on June 30, 1982.
8. Provide estimates of system reserve margins for the period 1982-1992.
9. Identify the next power plant which can be deferred by your company. Identify the next power plant which can be cancelled.

10. Provide an estimate of the number of megawatts of alternative power and/or conservation and/or load management required for deferral of this plant.

11. Provide a description of your company's method of determining system reliability. Provide estimate of the impact on system reliability of cogeneration and/or small power production if possible.



APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN  
CASE NO. 8566 DATED JULY 22, 1982.

Table I  
System Avoided Energy Costs Rates<sup>1</sup>  
On-Peak (cents/KWH) Off-Peak (cents/KWH)

	1982	1983	1984	1985	1986
Peak					
Off-Peak					
Non-Time Differentiated					

<sup>1</sup> In current dollars.

Table II  
Avoided Capacity Costs Rates<sup>1</sup>

Operation Date	Length of Contract			
	5 yrs	10 yrs	15 yrs	20 yrs
1982				
1983				
1984				
1985				
1986				

<sup>1</sup> In current dollars.

Table III

Include other terms and conditions of service with qualifying facilities.