

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DICKERSON LUMBER EP COMPANY	)	
	)	
COMPLAINANT	)	
	)	
v.	)	CASE NO. 9892
	)	
FARMERS RURAL ELECTRIC COOPERATIVE	)	
and EAST KENTUCKY POWER COMPANY	)	
	)	
DEFENDANTS	)	

O R D E R

BACKGROUND

On March 25, 1987, Dickerson Lumber EP Company ("Dickerson") filed its Petition for Formal Complaint against East Kentucky Power Cooperative, Inc. ("EKPC") and Farmers Rural Electric Cooperative Corporation ("Farmers"). Dickerson alleged that EKPC and Farmers had failed to negotiate a purchase agreement that contained a capacity purchase rate. On April 13, 1987, EKPC and Farmers filed their Response denying all allegations. Dickerson filed its Response to EKPC's Answer of Formal Complaint on May 6, 1987, along with Rowan County Association of Power Producers' ("RCAPP") Motion to Intervene and Add Fleming-Mason Rural Electric Cooperative Corporation ("Fleming-Mason") As A Plaintiff. On May 19, 1987, the Public Service Commission granted RCAPP's motion and issued notice to Fleming-Mason to add it as a party. On July 13, 1987, the Commission issued an Order denying various motions of

EKPC, Farmers, and Fleming-Mason to rescind its May 19, 1987, Order and required EKPC, Farmers, and Fleming-Mason to submit their avoided cost methodology, estimates of avoided capacity costs and avoided energy costs. In addition, the Commission established a procedural schedule for the case.

On October 7 and 8, 1987, the hearing was conducted. Witnesses for the various parties were as follows:

Hugh Larkin	Dickerson
David Kinloch	Dickerson
Paul Atchison	EKPC
James Adkins	EKPC
Jackie Browning	Farmers
J. B. Galloway	Farmers

On January 29, 1988, Dickerson petitioned the Commission to admit Mr. Fred [Robert] Lyons' testimony in Case No. 10064, General Rate Adjustments Of Louisville Gas And Electric Company, as evidence in this case. On February 4, 1988, EKPC, Farmers, and Fleming-Mason responded to Dickerson's motion. EKPC, Farmers, and Fleming-Mason argued that the Dickerson motion was untimely. The Commission concurs with EKPC, et al., and will deny Dickerson's motion. All information requested during the hearing has been filed.

#### EKPC AVOIDED CAPACITY COST

##### Avoided Capacity Cost Methodology

The Commission in its July 13, 1987, Order in this case required EKPC to prepare and file a method for determining avoided capacity costs. However, in response to the Commission's Order,

both EKPC and Dickerson's witness, Mr. Kinloch, sponsored alternative methods for determining avoided capacity costs. Though the Commission in its Order in Case No. 8566, Setting Rates And Terms And Conditions Of Purchase Of Electric Power From Small Power Providers And Cogenerators By Regulated Electric Utilities, gave the utilities great latitude in how they determined avoided capacity, the Commission did not preclude intervenors from sponsoring alternative methods for estimating avoided capacity costs. Therefore, the Commission will consider both EKPC's and Dickerson's proposed avoided capacity cost methodologies.

EKPC proposed to adopt an avoided cost methodology based on the deferral for one year of its most economic capacity supply plan from the July Power Supply Study. The one year deferral of the 20-year expansion plan was selected because ". . . EKPC's winter peak demand is much higher than the demand for the remainder of the year,"<sup>1</sup> therefore, deferral for less than one year would be without value to EKPC. The methodology determines the value of deferring capacity by comparing the total present worth of annual cost for its proposed expansion plan with the present worth of annual costs after all capacity is deferred for one year. EKPC then applied a carrying cost factor (addressed later in this Order) to determine the levelized 1987 present value of the deferral for a 20-year contract period. The resulting

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<sup>1</sup> Atchison Prefiled Testimony, p. 6.

calculation provides the fixed contract purchase rate a Qualifying Facility ("QF") would receive each year when capacity was provided for the 20-year contract period.

Dickerson proposed an alternative methodology for determining EKPC's avoided capacity costs. It is based on a methodology developed in Michigan for Consumers Power Corporation.<sup>2</sup> The methodology requires EKPC to identify the next plant in its capacity supply plan in which capacity costs can be avoided by cancellation, deferral, or downsizing. The avoided capacity cost of that plant is determined by taking the difference in the estimated total cost of the plant at completion less the current investment in the identified plant. The resulting incremental costs are then deflated, using the escalation rates provided by Stanley Consultants in EKPC's Power Supply Study, to derive total avoidable capacity costs in 1987. To determine the per KW avoided capacity cost, the 1987 total avoided capacity costs are divided by the net plant capacity of the plant.

Both parties made extensive comments both during cross-examination and in their briefs concerning the alternative methodologies proposed by the opposing party. Dickerson contends that EKPC's avoided capacity costs are not tied to any particular plant and are, thus, in conflict with the Commission's Order in Case No. 8566. Specifically, Dickerson argues that by not selecting a particular plant, the avoided energy costs associated with deferral or downsizing cannot be properly matched with the

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<sup>2</sup> Kinloch Prefiled Testimony, p. 4.

capacity-related payment. In addition, Dickerson argues that the present worth analysis presented by EKPC will result in avoided capacity costs that will be lower than the actual costs the utility would use to add new capacity. According to Dickerson, "The OF, under this methodology would be penalized because utilities have long lead times for the plants they build."<sup>3</sup>

EKPC contends that Dickerson's methodology is based upon questionable assumptions and manipulation of data. EKPC argues that partially constructed plants such as the Smith Station may not result in MW for MW cost saving when plant downsizing occurs. Thus, Dickerson's proposed methodology may result in an over-estimation of avoided capacity costs. In addition, EKPC contends that Dickerson's methodology fails to take into account the present value of money in its calculation of EKPC's avoided capacity costs.

The Commission in reviewing the proposed avoided capacity costs methodologies continues to use the same standard as it expressed in Case No. 8566, ". . . that if a method properly reflects the savings from changes in system planning conditions and is reproducible by other interested parties, then it is acceptable for current use."<sup>4</sup>

In reviewing the proposed methodology of Dickerson, the Commission does have some serious reservation concerning the unit selection and its applicability in determining EKPC's avoided

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<sup>3</sup> Dickerson Brief, p. 42.

<sup>4</sup> Final Order, Case No. 8566, p. 5.

capacity cost. Mr. Kinloch contended that the appropriate unit to use in the Dickerson methodology is the Smith Station or its successor coal base unit currently scheduled for 2003.<sup>5</sup> However, EKPC's current power supply plan indicates that its least cost capacity supply option is a combustion turbine ("CT") in 1995. Thus, a major concern with the methodology is illustrated in this case by the problem of determining what is the appropriate unit to select. The selection of a base load coal fired unit would have a higher avoided capacity cost than a CT. The problem is further exacerbated if the Commission designated the CT as the proxy unit and yet the QF unit is actually dispatched as a base load unit. The QF unit would operate for longer hours than the CT it replaced; therefore, EKPC and its customers would pay energy related payments to the QF that would exceed their actual avoided energy costs. A second major concern with the application of the proxy unit method proposed by Dickerson is the failure to apply present value analysis to the avoided capacity costs resulting from the deferral, downsizing, or cancellation of the proxy unit. EKPC, Farmers, Fleming-Mason, and their customers would be unwilling to pay today's prices for capacity that will not be needed until 1995. The Commission is of the opinion that the adoption of Dickerson's methodology would result in rates that exceed EKPC's avoided capacity costs and would violate its regulation 807 KAR 5:054, Section 7(4) on purchase of QF capacity. Therefore, the Commission will reject Dickerson's proposed

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<sup>5</sup> Kinloch Supplemental Testimony, p. 6.

methodology. Furthermore, the Commission will reject proposed capacity purchase rates based on Dickerson's methodology.

In this proceeding, EKPC has proposed to use its own system planning criteria in determining its avoided capacity costs. First, EKPC assumes sufficient QF capacity to meet its load growth for one year. Then the method compares the present value of the costs of its adopted 20-year capacity plan with the present value of the costs of a 20-year capacity supply plan deferred one year due to QF purchases. The resulting differential represents the avoided capacity costs for EKPC resulting from the QF purchases. The Commission is of the opinion that the methodology is consistent with its Order in Case No. 8566 and it does properly reflect the savings resulting from QF purchases. Therefore, the Commission will adopt EKPC's proposed avoided capacity cost methodology.

#### EKPC's Avoided Capacity Purchase Rate

In Case No. 8566 the Commission expressed the opinion:

There are unique conditions on a utility's system which may obviate the necessity for capacity payments. If a utility demonstrates to the Commission's satisfaction that it simultaneously faces insignificant load growth, excess capacity, minimum off-system sales and is neither planning nor constructing capacity within its 10-year planning horizon then the utility cannot avoid capacity related costs at that time so a capacity payment would not be justified. However, the Commission emphasizes that it would be contradictory for utilities to argue for zero avoided capacity costs while proceeding to plan for or construct generating facilities. The burden is on the utility to demonstrate zero avoided capacity costs.<sup>6</sup>

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<sup>6</sup> Final Order, Case No. 8566, p. 6.

In this case, Dickerson Lumber has requested that Farmers RECC and EKPC negotiate a capacity purchase rate. Dickerson alleges that EKPC has failed to demonstrate zero avoided capacity costs because it is planning to construct a plant within the 10-year planning horizon as described by the Commission in its Order. In response, EKPC contends that the Commission established a standard in its Order in Case No. 8566. ". . . that capacity payments [to QFs] are appropriate in most circumstances if the QF meets the reliability and dispatchability criteria which a utility would use for its own generation plant."<sup>7</sup> Considerable concern was expressed by both parties concerning the interpretation of the Commission's Order.

EKPC argues that the Commission intended to establish a threshold standard where a QF is required to meet the same reliability and dispatchability criteria a utility uses with its own plants. If the QF cannot meet these standards, then the QF would not be eligible for capacity purchase rates, plus it could not enter into a legally enforceable obligation with the utility. Mr. Atchison in his testimony stated, "The contract would have to commit the QF to meeting our reliability standards of 75% overall, and 85% excluding scheduled maintenance, and the capacity provided would have to meet such loads at any time of day."<sup>8</sup> EKPC contended that Dickerson had not demonstrated either the

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<sup>7</sup> Ibid., p. 4 and 5.

<sup>8</sup> Atchison Prefiled Testimony, p. 3.

reliability or dispatchability requirements set forth in the Commission Order and, thus, was not eligible for capacity-related payments.

Dickerson witness, Mr. Kinloch did not concur with EKPC's position or interpretation of the Commission's Order. Mr. Kinloch contended that the Commission's Order was "subject to interpretation"<sup>9</sup> and if it was interpreted as requiring an "all or nothing"<sup>10</sup> standard, it was inconsistent with PURPA. As an example, he pointed out that photovoltaics have "a low capacity factor since they don't generate at night" but ". . . are almost always available during summer peaks."<sup>11</sup> He further indicated that adopting a threshold standard for QF qualification for capacity payments would have the potential to generate a large number of disputes because both the QF and utility plant capacity factors will vary over time.

As an alternative to the threshold method, Mr. Kinloch proposed that the Commission adopt a "proportional" capacity payment method. The proposal would classify QF capacity into five categories: peak capacity, dispatchable base load capacity, non-dispatchable base load capacity, partially dispatchable base load capacity, and as-available non-firm capacity. Under the

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<sup>9</sup> Transcript of Evidence ("T.E."), October 7, 1987, Volume I, p. 86.

<sup>10</sup> Kinloch Prefiled Testimony, pps. 20, 21.

<sup>11</sup> Ibid., p. 20.

proposal, both peak capacity and dispatchable base load would receive full capacity payments while non-dispatchable base load would receive a capacity payment based on the ratio of the capacity factor of the QF and the plant it is deferring. Finally, the partially dispatchable base load capacity would receive full capacity credit during dispatch and proportional capacity payment during periods it was not dispatched. As available power would not receive a capacity-related payment under Mr. Kinloch's proposal.

The Commission in its Order in Case No. 8566 attempted to establish conditions under which utilities would offer capacity-related payments to QFs. In stating that capacity payments were appropriate when a QF meets the reliability and dispatchability criteria which a utility would use for its own generation plant the Commission did not intend to imply that unless a QF met the aggregate supply conditions of the utility, the QF did not qualify for capacity payments. The Commission is fully aware that capacity factors of EKPC generation plants, as well as other utilities, do vary over the years and, even for a specific year, some generation units' capacity factors will exceed the company average while others do not. Furthermore, the Commission does concur with Mr. Kinloch that if it established such a standard it would be in conflict with both PURPA and its own regulations. For example, if reliability and dispatchability standards were required for capacity purchase payments it would be impossible for QFs under 100 kw capacity to qualify for capacity payments since it is highly unlikely that EKPC would want to

dispatch them. However, the Commission's regulation, 807 KAR 5:054, Section 7(2)(b), explicitly states, "The capacity component shall be based on the supply characteristics of the qualifying facilities, and the aggregate capacity value of all 100 kilowatts or less facilities which supply power on a legally enforceable basis." Thus, the Commission did fully anticipate some capacity value for most QFs irrespective of whether they met the utility average reliability criteria or not.

EKPC contends that it would not avoid capacity costs from purchases of power from Dickerson and RCAPP. Mr. Atchison stated, "EKPC believes that capacity costs can only be avoided if it is assumed that an aggregate amount of QF capacity equal to approximately one year of load growth is available."<sup>12</sup> EKPC estimates that one year of load growth will average approximately 60 MW of capacity including 20 percent reserve capacity.<sup>13</sup> EKPC argues that since Dickerson and RCAPP cannot offer sufficient capacity to defer EKPC's power supply plan for one year, then, to grant a capacity payment to them would violate the requirements of PURPA. EKPC contends that there will be no savings from the QF purchase. Therefore, EKPC recommends that the Commission deny Dickerson's and RCAPP's request for an avoided cost capacity payment.

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<sup>12</sup> Atchison Prefiled Testimony, p. 4.

<sup>13</sup> Ibid., p. 4.

Dickerson contends that the determination of whether a QF should receive a capacity payment is dependent on ". . . whether or not the QF is selling power under a legally enforceable contract." Mr. Kinloch argues that the "FERC Regulation 292.304(e)(2), [807 KAR 5:054] outlines seven major areas that affect the rate of purchase and must be included in any legally enforceable QF contract to make that contract consistent with PURPA."<sup>14</sup> Dickerson's position is that as long as capacity costs are avoidable and the QF is willing to enter into a legally enforceable contract, then it is appropriate for the QF to receive avoided capacity payments.

The Commission in Case No. 8566 expressed its reservations with the position adopted in this case by EKPC concerning when capacity purchase payments should be made to QFs. The Order stated:

The Commission is fully aware that the development of cogeneration and small power production in Kentucky is in a "Catch 22" situation and any decision made to encourage its development through capacity purchase payments will have certain risks attached to it. On the one hand, KU and other utilities argue that without sufficient reliable QF power secured by a contract, the utility cannot avoid construction of generating capacity. If the utility proceeds under these assumptions it runs the risk that all of the QF capacity which is under contract will be rendered excess when a generating plant comes on line. On the other hand, however, without an avoided capacity payment, QFs in Kentucky cannot meet financial feasibility requirements

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<sup>14</sup> Kinloch Prefiled Testimony, p. 7.

of the investment community, the net result of which will be the failure to develop QF power. The Commission is of the opinion that opportunities offered to the utilities to delay, cancel or downsize expensive and large new capacity additions by the development of this technology more than offset the risk associated with its development.

In this proceeding approximately 11 MW of potential QF capacity has been offered. In addition, EKPC has identified approximately 20 other potential cogenerators in their service territory. Finally, in EKPC's Power Supply Study their consultants stated, "Using very generous criteria about 50 MW of potential was identified. Less than 50% of that potential might prove economical."<sup>16</sup> The Commission is of the opinion that EKPC has failed to demonstrate its contention that there isn't sufficient QF capacity in its territory to provide capacity to offset its load growth for one year. It is the responsibility of EKPC to demonstrate through its own study that QF capacity is not available and not the responsibility of each QF to demonstrate. Therefore, EKPC should file an avoided capacity cost purchase rate based on the methodology adopted in this proceeding. Furthermore, if EKPC does contend in future proceedings that inadequate QF capacity is available to offset annual load growth, then it should survey potential QF (both cogenerators and small power producers) and affirmatively demonstrate that under the prevailing and projected avoided capacity cost purchase rates that QFs would be unwilling to provide capacity. The Commission will consider this

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<sup>15</sup> Final Order Case No. 8566, p. 12.

<sup>16</sup> 1987 Power Supply Study, p. III-12.

evidence, in conjunction with other EKPC projects which are designed to defer plant capacity, to determine whether avoided cost capacity purchase rates should be offered.

The Commission is of the opinion that the proportional capacity approach proposed by Dickerson should serve as the basis for negotiating both the RCAPP and Dickerson's contract capacity and capacity purchase rate. Dickerson and/or RCAPP will be required to certify in its contract with Farmers and EKPC that its generator will be available and operating during EKPC's winter peak season. Furthermore, the contract must extend for a 20-year duration and contain a penalty for early termination. RCAPP and Dickerson during the winter peak period would be required to maintain a forced outage rate no worse than EKPC's system average forced outage rate. To the extent that the forced outage of RCAPP and Dickerson in the aggregate exceeds or is less than the system average, the Commission will require EKPC, Farmers, and Fleming-Mason to consider these factors in determining payments in the contract. Since both RCAPP and Dickerson have expressed willingness to be dispatched by EKPC, the Commission will require EKPC to determine if it is feasible to dispatch these units. To the extent that it isn't feasible, the Commission will not require dispatch; however, this will not serve as a basis for denying avoided cost capacity purchase rates.

The Commission, in this proceeding, does not have the information to design and/or order a specific purchase contract for Dickerson and RCAPP. The Commission does intend to give guidelines in those areas that are in dispute. These guidelines

should provide a basis for settlement between the parties. Furthermore, the Commission is willing to offer the Commission Staff's assistance in the negotiations between the parties.

AVOIDED ENERGY COSTS

EKPC has proposed to decrease its avoided energy cost purchase rate to reflect the lower fuel costs incurred since their last filing in 1983. Mr. Atchison stated, "[T]o determine avoided energy costs, EKPC reduced its native load by 50 MW for each year. The incremental savings or avoided energy costs was then determined by taking the difference in the variable production costs between the base case and the modified case dividing by the energy removed from the system."<sup>17</sup> EKPC estimated their ". . . avoided energy costs for 1988 through 1992 to be 1.197, 1.288, 1.373, 1.493 and 1.608 cents/kwh, respectively."<sup>18</sup>

Dickerson objected to EKPC's marginal costs contending that "The methodology used by EKP[C] generates avoided energy costs that are unrealistically low."<sup>19</sup> Mr. Kinloch stated, "Thus 97.6% of the time EKP[C] claims the hourly system lambdas were cheaper than the variable costs from their cheapest plant."<sup>20</sup> In

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<sup>17</sup> Atchison Prefiled Testimony, p. 8 and 9.

<sup>18</sup> Ibid., p. 8.

<sup>19</sup> Kinloch Prefiled Testimony, p. 30.

<sup>20</sup> Ibid., p. 32.

addition to EKPC's internal production in 1986, EKP[C] purchased 1,225,715 MWH from Public Service Indiana ("PSI"). As an alternative to EKPC's avoided energy costs, Mr. Kinloch proposed that the Commission adopt an avoided energy cost equal to 17.3986 mills/kwh,<sup>21</sup> the price paid to PSI for off-system purchases.

The Commission, in its regulation 807 KAR 5:054, Section 5(2)(a), stated "The avoided [energy] costs shall be stated on a cents per kilowatt-hour basis during daily, seasonal peak and off-peak periods, by year, for the current calendar year and each of the next (5) years." The Commission in adopting the regulation anticipated that utilities would use their estimated avoided energy projected for 5 years in the future. The Commission fully realizes that energy transactions such as the PSI purchase by EKPC will not be reflected in avoided energy costs estimates because of unanticipated off-system purchases. It is the opinion of the Commission that EKPC's use of the EGEAS costing model is appropriate and provides reasonable estimates of its avoided energy costs. Therefore, the Commission will reject Dickerson's proposed avoided energy costs and will adopt EKPC's avoided energy costs as proposed. Furthermore, the Commission will require Farmers and Fleming-Mason to file tariffs within 30 days of the date of this Order reflecting these rates.

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<sup>21</sup> Kinloch Prefiled Testimony, p. 31 and 32.

## OTHER ISSUES

### Insurance

EKPC and Farmers have proposed that Dickerson show proof of liability insurance prior to signing a purchase contract. Dickerson contends that EKPC's liability insurance requirement is inconsistent with PURPA because ". . . insurance has become the favorite method around the country for utilities to discourage QF development<sup>22</sup> and at the very least make QF development less economically attractive. In the alternative, Dickerson proposed that the contract with EKPC, Farmers, and Dickerson contain a clause whereby "neither the QF or the utility can hold the other party liable for any actions of the other party."<sup>23</sup> In response to Dickerson's contract proposal, EKPC and Farmers expressed concern with third party liability suits.

The Commission in Case No. 8566 stated ". . . since none of the utilities has much experience with QFs, it is difficult to ascertain what is an adequate level of insurance or bonding."<sup>24</sup> EKPC and Farmers have proposed public liability insurance requirement of \$1,000,000 bodily injury and \$500,000 property damage. The Commission is of the opinion that EKPC and Farmers'

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22 Ibid., p. 45.

23 Ibid., p. 46.

24 Final Order, Case No. 8566, p. 35.

liability insurance requirements are not excessive and are needed to protect Farmers and their ratepayers from potential third party suits. However, the Commission will accept the Dickerson contract clause whereby Farmers and Dickerson will not hold the other party liable for acts committed by that party. The Commission will continue to review utility liability insurance requirements for QFs to insure that it is not used as an impediment to the development of QF technology.

#### Carrying Charge Rate

EKPC and Dickerson proposed fixed carrying charge rates in this proceeding. Both parties agreed with all components included in the calculation of the fixed charge with the exception of Mr. Larkin's application of TIER. Mr. Larkin multiplied EKPC's TIER of 1.15 times EKPC's stated interest and depreciation component to arrive at 11.8643 percent for that component. Dickerson contends that it was included ". . . because it is a cost that the QF could avoid"<sup>25</sup> and, thus, was appropriate. EKPC, however, argues that it is improper to include TIER because ". . . it is not a cash cost to East Kentucky Power and should not be included in our methodology."<sup>26</sup>

In determining the proper carrying charge rate it is the Commission's opinion that the rate should include only components

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<sup>25</sup> Dickerson Brief, p. 46.

<sup>26</sup> T.E., Vol. I, p. 243.

of costs that can be avoided by EKPC. Since EKPC will avoid the cost associated with the financing of the power plant it will also avoid the costs associated with the TIER. Therefore, the Commission accept the carrying charge rate proposed by Dickerson. The Commission will require EKPC to refile its carrying charge rate to reflect the rate adopted above. This carrying charge will be used in determining EKPC's avoided capacity purchase rate.

#### Interconnection Requirements

Opposition was expressed by Dickerson to Farmers' interconnection requirements. During the hearing, Farmers indicated that there have been changes in the interconnection requirements since the last negotiations with Dickerson. Because of the interconnection requirement charges, Dickerson requested an informal technical conference with Farmers and the Commission Staff participating to determine OF interconnection requirements and costs. Farmers expressed concern with the costs of ". . . working on a project that would not ordinarily be worked on by in-house engineers,"<sup>27</sup> but did not object to an informal conference.

The Commission will defer its decision on interconnection requirements pending agreement on those aspects of a contract between EKPC, Farmers, and Dickerson. The Commission does agree that if negotiations should reach the stage where a decision on interconnection requirements is necessary, then it will use its

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<sup>27</sup> T.E., October 7, 1987, Vol. II, p. 51.

offices to schedule an informal conference between EKPC, Farmers, Dickerson, and Commission staff. The Commission will, if necessary, determine the costs of interconnection at some future date.

#### SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The avoided capacity cost methodology proposed by Dickerson be and is hereby rejected.

2. The avoided capacity cost methodology proposed by EKPC be and is hereby adopted.

3. The avoided capacity purchase rate proposed by EKPC be and is hereby rejected.

4. The carrying charge proposed by EKPC be and is hereby rejected.

5. The carrying charge proposed by Dickerson be and is hereby adopted and should be refiled within 30 days of the date of this Order and used in the calculation of EKPC's capacity purchase rate.

6. EKPC, Farmers, and Fleming-Mason should recalculate its capacity purchase rate in accordance with the above discussion and refile within 30 days of the date of this Order.

7. The avoided energy costs of purchase rate 1.7 cents per kwh proposed by Dickerson be and is hereby rejected.

8. The avoided energy cost purchase rate of 1.197 cents per kwh by EKPC be and is hereby adopted.

9. EKPC, Farmers, and Fleming-Mason should file revised tariff pages as necessary to reflect the adopted avoided energy costs within 30 days from the date of this Order.

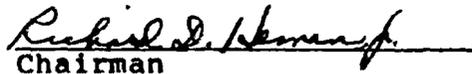
10. Farmers and EKPC's \$1,000,000 personal injury and \$500,000 property liability insurance requirement should be included as a requirement in Dickerson's and RCAPP's proposed contract.

11. Farmers and Fleming-Mason should file revised tariff pages as necessary to reflect the EKPC capacity purchase rate as stated in Finding 6 within 45 days of the date of this Order.

Accordingly, each of the above findings is HEREBY ORDERED.

Done at Frankfort, Kentucky, this 6th day of May, 1988.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director