COMMONWEALTH OF KENTUCKY

BEFORE THE 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

ORDER

On February 6, 2014, East Kentucky Power Company Cooperative, Inc. ("EKPC") submitted an application requesting authority to establish an Economic Development Rider ("EDR") tariff pursuant to the Commission's Order in Administrative Case No. 327 ("Admin. 327").[1] EKPC proposed an effective date for its EDR tariff of March 10, 2014. On February 20, 2014, the Commission suspended the tariff up to and including August 10, 2014. EKPC responded to two Commission Staff ("Staff") requests for information. An Informal Conference ("IC") was held at the request of EKPC to discuss this case, as well as Case No. 2014-00047,[2] which involves Jackson Energy Cooperative Corporation's ("JECC") request for authority to establish an EDR tariff based on the tariff requested by EKPC. On May 7, 2014, pursuant to the procedural schedule issued in this proceeding, EKPC filed a notice that it waived a hearing of this matter. Gallatin Steel Corporation requested and was granted intervention, but has not participated in this proceeding. This case now stands submitted for a decision based on the evidentiary record.

[1] Administrative Case No. 327, An Investigation Into the Implementation of Economic Development Rates by Electric and Gas Utilities (Ky. PSC Sept. 24, 1990).

[2] Case No. 2014-00047, Application of Jackson Energy Cooperative Corporation for Approval of an Economic Development Rider (Ky. PSC filed Feb. 13, 2014).

EKPC's proposed EDR tariff, as confirmed through EKPC's responses to Staff's requests for information and discussions at the IC, conforms to the requirements of Admin. 327 as discussed below:

- Rate discount and related provisions, jobs and capital investment involved, customer-specific fixed costs, minimum bill, estimated load and load factor, and length of contract to be specified in contract.

The proposed EDR tariff is available to non-residential customers that are served under or are eligible for EKPC's Section B, C, E, or G rates beginning January 1, 2013. The tariff would be available to qualifying new customers with a minimum average monthly billing load of at least 500 kilowatts ("kW") over a 12-month period, or to an existing customer who has demonstrated an increase in its minimum average monthly billing load of at least 500 kW over a 12-month period. If the new or existing customer is located in a county identified by the Kentucky Cabinet for Economic Development's Kentucky Business Investment Program as an Enhanced Incentive county, then the customer would be eligible with a new or increased minimum average monthly billing load of 250 kW over 12 months.

The tariff also requires an EDR customer to agree to maintain a 60 percent load factor following the first 12 months of the discount period. Qualifying EDR customers will be required to enter into a special contract with EKPC and the member system offering the special contract (the member system being JECC in the tariff proposed in Case No. 2014-00047 or any other EKPC distribution cooperative member that wishes to implement an EDR tariff) addressing the new load to be served; the number of new jobs, if any, anticipated to be created by the customer as a result of the new load; and the capital investment involved.

The tariffs specify that customer-specific fixed costs will be recovered over the life of the special contract. EKPC indicated in response to Staff information requests that the contracts would address the minimum bill.

The tariff provides for the following standard discount terms:

Discount Period	3 years	4 years	5 years
Required Minimum Contract Term	6 years	8 years	10 years
Discount to Total Demand Charge:			
First 12 consecutive monthly billings	30 percent	40 percent	50 percent
Next 12 consecutive monthly billings	20 percent	30 percent	40 percent
Next 12 consecutive monthly billings	10 percent	20 percent	30 percent
Next 12 consecutive monthly billings	0 percent	10 percent	20 percent
Next 12 consecutive monthly billings	0 percent	0 percent	10 percent

Each special contract will contain a three-, four-, or five-year discount period, with the contract term extending twice the length of the discount period. At a minimum, the discount will apply to the EKPC demand charge of the qualifying customer's applicable rate schedule. EKPC and JECC state that all the EKPC member cooperatives have their own demand charges and that the member cooperative could provide a larger discount if it chose but, if so, it would be included in the special contract.

Regarding the proposed definition of a new customer as one being served after January 1, 2013, EKPC and JECC indicated that only one existing customer would qualify for the proposed EDR as a result of the proposed eligibility date. The January 1, 2013 new customer definition was proposed for purposes of qualifying this customer only; EKPC and JECC are not proposing to discount past bills for this customer, but to apply the proposed discount prospectively following Commission approval of an EDR contract with the customer.

- Adequate capacity with a reserve margin for system reliability to be demonstrated in contract.

EKPC requests a deviation from this guideline, which the Commission originally intended to address a concern that load resulting from discounted rates should not create a need for new plant capacity. EKPC commits to providing the reserve margin information as part of any special contract filed pursuant to the EDR tariff. EKPC states in its Application that the electric industry has changed significantly since the Commission's Order in Admin. 327 was issued in 1990 with the development of wholesale energy and capacity markets and the advent of Regional Transmission Organizations which allow utilities to increase the use of market purchases and to diversify resource portfolios. As a member of PJM Interconnection, Inc., EKPC believes it should be permitted to make market purchases during times when excess capacity may not exist to meet the needs of an EDR customer. EKPC states that, pursuant to the EDR contract, the customer will be required to pay the cost of the market purchase.

- Demonstration that discounted rate exceeds marginal cost recovery through current marginal cost-of-service study with each contract.

EKPC states that any special contract will be submitted for Commission approval, along with a current marginal cost of service study.

- Annual report showing revenues received from each EDR customer and marginal cost for that customer.

This would be required by any order of the Commission approving an EDR. The required form of the EDR Annual Report is set out in the Appendix to the Final Order in Admin. 327, and is reproduced in the Appendix to this Order.

- Demonstrate during rate proceedings through cost-of-service analysis that nonparticipating customers are not adversely affected by EDR.

EKPC commits to providing this type of cost-of-service analysis related to EDR contracts in its rate proceedings in the future.

- Recovery of customer-specific fixed costs from EDR customer over the term of the contract.

This provision is incorporated in the proposed EDR tariff and will be included in special contracts. However, EKPC states that it does not currently charge for a meter associated with a contract and does not plan to charge for a meter associated with EDR special contracts.

- Load parameters for new customers to exceed a minimum base level and for existing customers to exceed an incremental usage level above a normalized base load.

The proposed EDR tariff partially complies with this requirement. As stated earlier, the tariff is available to qualifying new customers with a minimum average monthly billing load of at least 500 kW over a 12-month period or existing customers whose minimum average monthly billing load has increased by at least 500 kW over a 12-month period. If the new or existing customer is located in an Enhanced Incentive county, then the customer would be eligible with a new or increased minimum average monthly billing load of 250 kW. EKPC proposes to apply the EDR discount to all of the electric usage, instead of only to the incremental usage over some specified base level, of a qualifying new customer with a minimum average monthly billing load of 500 kW or

250 kW, depending on the customer's status as being in an Enhanced Incentive county. For an existing qualifying customer, the normalized base load will be determined by averaging the customer's previous three years' monthly billing loads.

- Justification of load parameters.

EKPC states that the proposed load parameters are reasonable based on the makeup of its member cooperatives' service areas. Considering their economic conditions, EKPC, in consultation with its members, including JECC, decided to offer a lower minimum threshold level in order to encourage new and expanded business in areas where unemployment has traditionally been high.

- Demonstrate financial hardship on the part of existing customers to be served pursuant to EDR contracts.

EKPC states that it and its member cooperatives would comply with the provisions of this guideline if it was determined to be beneficial to enter into an EDR contract to retain the load of an existing customer, but this was not included as a stated option in the tariff. It is EKPC's position that the proposed EDR tariffs will be better used to attract new customers or to encourage expanded load from existing customers.

- Term of EDR contract to be twice the length of the discount period, with the discount period not to exceed five years and with rates charged to the customer after the discount period to be identical to those contained in the standard rate schedule for the customer class.

EKPC's proposed EDR tariff complies with this requirement as discussed above.

FINDINGS

After reviewing the record in this proceeding and being otherwise sufficiently advised, the Commission finds that EKPC has established that it is aware of the Commission's intent and directives with regard to EDRs, and that the proposed tariff complies with the majority of the guidelines of Admin. 327. The exceptions are: the excess-capacity requirement, for which EKPC requests a waiver; the proposal to apply the EDR discounts to a qualifying new customer's entire load instead of just incremental load over a certain threshold amount, for which EKPC did not expressly request a waiver; and the definition of a new customer. With regard to the excess capacity requirement, the Commission notes that EKPC's tariff states that an EDR customer for whom market purchases must be made will be responsible for the cost of the market purchase so that other customers are not disadvantaged. As for the proposed application of the EDR discount to all of a new EDR customer's load, the Commission notes that all of the load of a new customer will be incremental usage over and above what was included in EKPC's last rate case, and that EKPC's proposed load parameters as they relate to applying the EDR discounts will not disadvantage other customers. Accordingly, although not expressly requested, the Commission grants a waiver from this requirement.

EKPC's proposal to define a new customer as one being served after January 1, 2013 was explored in Staff's requests for information and at the IC. EKPC has adequately demonstrated that this tariff provision will not create a free rider problem as discussed in the Commission's Order in Admin. 327, specifically that 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.[3] To the extent that this definition will apply to only one

[3] Administrative Case No. 327, An Investigation into the Implementation of Economic Development Rates by Electric and Gas Utilities (Ky. PSC Sept. 24, 1990), p. 14.

customer, who became a customer of JECC in mid-2013 and may leave the state absent an EDR incentive, but could expand its facilities if offered an EDR discount,[4] EKPC's proposal is reasonable and should be approved.

The Commission found in Admin. 327 that EDRs would provide important incentives to large commercial and industrial customers to either locate or expand their facilities in Kentucky, bringing jobs and capital investment to the Commonwealth. The Order in that proceeding stated that utilities should have the flexibility to design EDRs according to the needs of their customers and service areas and to offer them to new and existing customers who require an incentive to locate or expand facilities. The Commission's Order contemplated that EDRs would be offered by special contract instead of by tariff in order to avoid a free rider problem that could be invited by a general tariff offering a fixed discount. The Commission has since then approved EDR tariffs providing for special contracts, and will be able to closely monitor EKPC's use of approved EDR contracts and their effects on non-participating customers through the process outlined in Admin. 327. The Commission is satisfied that it will be able to monitor the use of fixed discounting through proposed EDR special contracts. The Commission finds that EKPC's EDR Tariff is reasonable and should be approved as proposed.

IT IS THEREFORE ORDERED that:

1. EKPC's proposed EDR tariff is approved effective on and after the date of this Order.

---

[4] Informal Conference Memo (Ky. PSC May 16, 2014).

2. EKPC's request for deviation from the excess capacity guideline is granted, based upon EKPC's tariff provision stating that individual EDR customers will be responsible for the cost of market purchases made on their behalf.

3. EKPC's proposal to apply EDR discounts to a new EDR customer's entire load is approved.

4. EKPC's proposal to define a new customer as one being served after January 1, 2013, for purposes of its EDR tariff is approved.

5. With any future filing of EDR special contracts, EKPC shall include all support required by Admin. 327 and as set out herein, including information in the EDR Annual Report, attached as an appendix to this Order.

6. Within 20 days from the date of this Order, EKPC shall file with the Commission, using the Commission's electronic Tariff Filing System, its revised tariff showing the date of issue and that it was issued by authority of this Order.

By the Commission

ENTERED
JUN 20 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Aaron D. Greenwell for
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00034 DATED JUN 20 2014

ECONOMIC DEVELOPMENT RATE CONTRACT REPORT

UTILITY:______________________________ YEAR:____________

	Current Reporting Period	Cumulative
1) Number of EDR Contracts -		
Total:	________	________
Existing Customers:	________	________
New Customers:	________	________
2) Number of Jobs Created -		
Total:	________	________
Existing Customers:	________	________
New Customers:	________	________
3) Amount of Capital Investment -		
Total:	________	________
Existing Customers:	________	________
New Customers:	________	________

4) Consumption -

	Current Reporting Period	Cumulative
(A) DEMAND		
Total:	________ kW	________ kW
Existing Customers:	________ kW	________ kW
New Customers:	________ kW	________ kW
(B) ENERGY/CONSUMPTION		
Total:	________ kWh	________ kWh
Existing Customers:	________ kWh	________ kWh
New Customers:	kWh	kWh

Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

David S Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

Patrick Woods
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P. O. Box 707
Winchester, KY 40392-0707