COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) APPROVAL OF AN ECONOMIC DEVELOPMENT RIDER; (2) FOR ANY REQUIRED DEVIATION FROM THE COMMISSION'S ORDER IN ADMINISTRATIVE CASE NO. 327; AND (3) ALL OTHER REQUIRED APPROVALS AND RELIEF	)))))))	CASE NO. 2014-00336

ORDER

On September 18, 2014, Kentucky Power Company ("Kentucky Power") submitted an application requesting authority to establish an Economic Development Rider ("EDR") tariff ("Tariff E.D.R.") in accordance with the Commission's Order in Administrative Case No. 327 ("Admin. 327"),[1] subject to certain limited deviations requested herein. Kentucky Power proposed an effective date for its Tariff E.D.R. of October 29, 2014. On October 24, 2014, the Commission issued an Order suspending the tariff for five months, up to and including March 28, 2015. Kentucky Power responded to one Commission Staff ("Staff") request for information. This case now stands submitted for a decision based on the evidentiary record.

The proposed Tariff E.D.R. would be available to new and existing customers that are served, or eligible to be served, under either Kentucky Power's Tariff L.G.S., Tariff Q.P., or Tariff C.I.P. – T.O.D. The tariff would be available to qualifying new customers with a maximum average monthly billing demand of at least 500 kilowatts

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

("kW"), or to an existing customer contracting for an increase in its monthly base maximum billing demand of at least 500 kW at an existing facility, with the base monthly billing demand being the average corresponding months' maximum billing demand over the previous three years.[2] The tariff will be offered to eligible customers until a total of 250 megawatts ("MW") of new or expanded EDR load has been added to Kentucky Power's system. Kentucky Power states that it will not be required to purchase or construct additional capacity to satisfy an additional 250-MW load.[3] The proposed tariff's Terms and Conditions section contains a provision that the EDR will be offered when sufficient generating capacity is available, but that if it is not available to serve an EDR customer, Kentucky Power will procure the capacity with the cost reducing the customer's otherwise eligible billing demand discount under the proposed Tariff E.D.R.

The tariff specifies that an EDR customer may be required to make contributions in aid of construction ("CIAC") for any customer-specific fixed costs related to construction of new or expanded local distribution or transmission facilities required to provide the additional service. In response to a Staff request for information, Kentucky Power confirmed that a customer taking service under Tariff E.D.R. will be required to make a CIAC in instances in which a similarly situated customer not taking service under Tariff E.D.R. would be required to make a contribution. The total cost of the CIAC will be recovered over the life of the special contract, with at least 80 percent to be recovered over the discount period.[4]

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[2] Application at 5.

[3] Application, Direct Testimony of John A. Rogness III, at 22-23.

[4] Response to Commission Staff's Initial Request for Information, Item 4, filed Nov. 24, 2014.

Kentucky Power proposes to offer an Incremental Billing Demand Discount ("IBDD") to customers meeting the eligibility requirements of Tariff E.D.R., with the following discounts offered for the qualifying incremental billing demand:

Incremental Billing Demand Discounts					
Discount Period	5 years	4 years	3 years	2 years	1 year
Contract Term	10 years	8 years	6 years	4 years	2 years
Discount to Qualifying Incremental Billing Demand Charge:					
First 12 consecutive monthly billings	50%	40%	30%	20%	10%
Next 12 consecutive monthly billings	40%	30%	20%	10%	0%
Next 12 consecutive monthly billings	30%	20%	10%	0%	0%
Next 12 consecutive monthly billings	20%	10%	0%	0%	0%
Next 12 consecutive monthly billings	10%	0%	0%	0%	0%

Each IBDD Tariff E.D.R. special contract will contain a five-, four-, three-, two-, or one-year discount period, with the contract term extending twice the length of the discount period, as required by Admin. 327. The monthly minimum demand charge of each applicable tariff is waived for up to 36 months, depending on the length of the contract, to avoid unintentionally limiting the discount.[5]

In addition to the IBDD, Kentucky Power also proposes to offer a Supplemental Billing Demand Discount ("SBDD") to customers that create and sustain at least 25 new permanent full-time jobs over the contract term at the service location. The amount of additional discount pursuant to the SBDD is determined by the actual number of jobs maintained in each year. No additional discount is available if job creation is less than 25 permanent jobs. The maximum possible additional demand charge reduction would

[5] Application, Direct Testimony of John A. Rogness III, at 18.

be 5 percent in the first year of the contract for a customer with a ten-year contract creating and sustaining 50 or more jobs, as shown below:

Supplemental Billing Demand Discounts										
Contract Term	10 years		8 years		6 years		4 years		2 years	
Jobs Created	25-49	50	25-49	50	25-49	50	25-49	50	25-49	50
Discount Year										
Year 1	2.5%	5.0%	2.0%	4.5%	1.5%	30%	1.0%	3.5%	0.5%	3.0%
Year 2	2.0%	4.5%	1.5%	4.0%	1.0%	20%	0.5%	3.0%	0%	0%
Year 3	1.5%	4.0%	1.0%	3.5%	0.5%	10%	0%	0%	0%	0%
Year 4	1.0%	3.5%	0.5%	3.0%	0%	0%	0%	0%	0%	0%
Year 5	0.5%	3.0%	0%	0%	0%	0%	0%	0%	0%	0%

Kentucky Power discusses in its Application the Commission's finding in Admin. 327 that, although major objectives of EDRs are job creation and capital investment, specific requirements with regard to job creation and capital investment should not be imposed on EDR customers. Kentucky Power stresses the fact that the IBDD, which is the larger of the two discounts, is available to eligible customers without regard to either job creation or capital investment, and, therefore, its proposed tariff comports with the guidelines of Admin. 327.

<u>REQUESTED DEVIATIONS WITH REGARD TO CUSTOMER NOTICE</u>

Along with its September 18, 2014 Application in this matter, Kentucky Power filed a request to deviate from the requirements of 807 KAR 5:011, Section 8(4)(d), which sets out the requirement that customer notice must illustrate "the effect on average bill for each customer classification to which the proposed rates will apply."

Kentucky Power states that the average customer currently served pursuant to Tariff L.G.S. would be ineligible for Tariff E.D.R. because the average demand for that customer class is below the required 500 kW. Kentucky Power therefore provided notice to existing or potential Tariff L.G.S. customers by showing the effect of EDR discounts on bills of L.G.S. customers taking service at the minimum 500-kW demand level.

Kentucky Power also requested deviation from 807 KAR 5:011, Section 8(4)(b)-(d), which requires the identified information to be provided for each customer class. Kentucky Power's proposed Tariff E.D.R. offers the IBBD discounts, individually as well as in combination with two levels of job-related SBBD discounts, to three different customer classes. Kentucky Power stated it believed the resulting 60 possible calculations required for each of three regulation subsections would have rendered its customer notice of limited or no use. Therefore, Kentucky Power requested to deviate from the requirements of the regulation to the extent that it provided the required information for each tariff class using a ten-year contract term, along with further written explanation.

FINDINGS

After reviewing the record in this proceeding and being otherwise sufficiently advised, the Commission finds that Kentucky Power 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 guidelines of Admin. 327, with the exception of the proposal to apply the EDR discounts to a qualifying new customer's entire load instead of limiting the discount to incremental load over a certain threshold amount. In response to a Staff information request regarding this issue, Kentucky Power requested a deviation from this requirement. The Commission notes that all of the load of a new customer will be incremental usage over and above that which will be included in Kentucky Power's pending rate case, and that its proposed load parameters as they relate to applying the EDR discounts will not disadvantage other customers. Accordingly, the Commission grants a waiver from this requirement.

With regard to Kentucky Power's proposal to offer a supplemental EDR discount related to job creation, the Commission finds that it has adequately demonstrated that this tariff provision will not impede economic activity or prevent an otherwise eligible customer from participation in an EDR special contract. The design of the SBDD, in addition to the IBDD, appears to address the Commission's stated concern in Admin. 327, to the extent that it does not arbitrarily disqualify or disadvantage eligible customers who are able to offer tangible economic benefits to Kentucky Power's service area which are unrelated to job creation and capital investment.

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 approved EDR tariffs providing for special contracts and will be able to closely monitor Kentucky Power's use of approved EDR contracts and their effects on non-participating customers through the process outlined in Admin. 327, which requires that current marginal cost-of-service studies be filed with each proposed EDR contract, and that annual reports be filed detailing revenues and marginal costs associated with serving individual EDR customers, pursuant to approved contracts. 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 Kentucky Power's Tariff E.D.R. is reasonable and should be approved as proposed.

The Commission further finds that Kentucky Power's request to deviate from the notice provisions set out in 807 KAR 5:011, Section 8(4), are reasonable and should be approved as proposed.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's proposed Tariff E.D.R. is approved effective on and after the date of this Order.

2. Kentucky Power's proposal to apply EDR discounts to a new EDR customer's entire load is approved.

3. With any future filing of EDR special contracts, Kentucky Power shall include all support required by Admin. 327 as specifically recited in its Application, including information in the EDR Annual Report set out in the Appendix to this Order.

4. Within 20 days from the date of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, its Tariff E.D.R. showing the date of issue and that it was issued by authority of this Order.

5. Kentucky Power's request for deviation from 807 KAR 5:011, Section 8(4), as set out herein, is approved.

By the Commission

ENTERED

MAR 04 2015

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00336 DATED MAR 04 2015

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

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