Steven L. Beshear
Governor

Robert D. Vance, Secretary
Environmental and Public
Protection Cabinet

Timothy J. LeDonne
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

John W. Clay
Vice Chairman

Caroline Pitt Clark
Commissioner

February 1, 2008

Paul D. Adams
Office of the Attorney General Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

CERTIFICATE OF SERVICE

RE: Case No. 2007-00165
East Kentucky Power Cooperative, Inc.

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on February 1, 2008.

Executive Director

BOD/rs
Enclosure

Steven L. Beshear
Governor

Robert D. Vance, Secretary
Environmental and Public
Protection Cabinet

Timothy J. LeDonne
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

John W. Clay
Vice Chairman

Caroline Pitt Clark
Commissioner

February 1, 2008

William A. Bosta
Manager of Pricing
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P. O. Box 707
Winchester, KY 40392-0707

CERTIFICATE OF SERVICE

RE: Case No. 2007-00165
East Kentucky Power Cooperative, Inc.

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on February 1, 2008.

Executive Director

BOD/rs
Enclosure

Steven L. Beshear
Governor

Robert D. Vance, Secretary
Environmental and Public
Protection Cabinet

Timothy J. LeDonne
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

John W. Clay
Vice Chairman

Caroline Pitt Clark
Commissioner

February 1, 2008

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

CERTIFICATE OF SERVICE

RE: Case No. 2007-00165
East Kentucky Power Cooperative, Inc.

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on February 1, 2008.

Executive Director

BOD/rs
Enclosure

Steven L. Beshear
Governor

Robert D. Vance, Secretary
Environmental and Public
Protection Cabinet

Timothy J. LeDonne
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

John W. Clay
Vice Chairman

Caroline Pitt Clark
Commissioner

February 1, 2008

Honorable Charles A. Lile
Senior Corporate Counsel
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P. O. Box 707
Winchester, KY 40392-0707

CERTIFICATE OF SERVICE

RE: Case No. 2007-00165
East Kentucky Power Cooperative, Inc.

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on February 1, 2008.

Executive Director

BOD/rs
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR AN ORDER APPROVING A PILOT REAL-TIME PRICING PROGRAM FOR LARGE COMMERCIAL AND INDUSTRIAL CUSTOMERS	)))))	CASE NO. 2007-00165

ORDER

On April 20, 2007, East Kentucky Power Cooperative, Inc. ("EKPC") submitted an application to the Commission for a wholesale tariff of EKPC and a Member System retail tariff for a pilot real–time pricing ("RTP") program for large commercial and industrial customers pursuant to the Commission's directive in Administrative Case No. 2006-00045.[1] The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), and Kentucky Industrial Utility Customers, Inc. ("KIUC") were granted intervention in this proceeding. On May 15, 2007, the Commission established a procedural schedule that allowed for two rounds of discovery, written comments and the opportunity to request a hearing. The AG filed comments on July 12, 2007. EKPC did not reply to the AG's comments. The Commission received no requests for a hearing.

---

[1] Administrative Case No. 2006-00045, Consideration of the Requirements of the Federal Energy Policy Act of 2005 Regarding Time-Based Metering, Demand Response, and Interconnection Service, final Order dated December 21, 2006.

In our Order in Case No. 2006-00045, the Commission found that some large commercial and industrial customers may benefit from real-time pricing tariffs because such customers have greater operating flexibility than smaller customers and the cost of implementing real-time pricing may be cost effective for them. The Commission acknowledged, however, that the potential of commercial and industrial real-time pricing programs had not been adequately investigated. Therefore, we directed Big Rivers Electric Corp. ("Big Rivers"), Kentucky Power Company, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") as well as EKPC to develop a voluntary RTP program for their large commercial and industrial customers that would operate for an initial term of 3 years and to submit it to the Commission for review on or before April 20, 2007. Each company has complied with this directive.[2]

Summary of EKPC's Pilot RTP Program

EKPC's pilot RTP program is available to all EKPC Member Systems, but is limited to firm load customers with peak demands of 1,000 kW or more currently with an MV-90 metering system or willing to pay the incremental costs of installing and maintaining such a system. The cost of the meter along with the necessary equipment and installation is about $8,600. Interruptible Rider customers are not eligible. There

[2] Case No. 2007-00164, Notice of Amendments to Existing Tariffs of Big Rivers Electric Corporation and Kenergy Corp. to Implement a Voluntary Real-Time Pricing Pilot Program for Large Commercial and Industrial Customers, filed April 20, 2007; Case No. 2007-00166, Application of Kentucky Power Company for an Order Approving a Pilot Real-Time Pricing Program for Large Commercial and Industrial Customers, filed April 20, 2007; and Case No. 2007-00161, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving a Large Commercial and Industrial Real-Time Pricing Tariff, filed April 20, 2007.

are only about 70 eligible customers among member systems. Only 14 of the potential 70 customers lack an MV-90 metering system. EKPC expects seven participants.

The program will run for 3 years and customers must remain on the RTP tariff for at least one year. RTP customers will pay for the cost of an upgrade to the local distribution system if required. RTP customers must possess a personal computer with Internet access to obtain pricing information.

EKPC plans to bill customers under the standard tariff using a historical Customer Baseline Load ("CBL") which represents the predetermined hourly load profile covering one full 12-month period and the set of 12 monthly billing demands for each individual RTP customer. This allows EKPC to recover its embedded cost. A customer will receive a credit or a charge based on the RTP at each hour multiplied by the difference between actual load for that hour and the CBL for that hour. The EKPC pilot RTP program will be bill neutral to participating customers that do not change consumption patterns from historical usage, with the exception that participating customers will pay an Administration Fee of $150 per month. The Fuel Adjustment Clause and the Environmental Surcharge will apply to the CBL. EKPC will update the CBL for the removal of major, customer-owned electrical equipment or significant conservation or efficiency enhancements made by a customer.

The RTP will be EKPC's day-ahead hourly marginal generation cost, including estimated variable fuel cost, variable operation and maintenance costs, and variable emission allowance cost of the marginal generating unit, or purchased power cost, as applicable. It will also include EKPC's estimated marginal reliability cost and EKPC's estimated marginal transmission cost, as applicable, line losses, and a Risk Adder of 5 mills per kWh for the Wholesale Supplier.[3] EKPC will develop an RTP Website that customers may access via the Internet. Prices will be posted to this Website by 4:00 p.m. Eastern Time for the 24-hour period beginning with the hour ending 1:00 a.m. of the following day.

Pilot RTP program-related administrative costs identified by EKPC include billing expense, cost of posting day-ahead prices to a Website, related data management costs, and some incremental administrative costs. The Administration Fee of $150.00 is intended to cover most of these costs. The Risk Adder of 5 mills per kWh is intended to cover the risk of making the marginal day ahead cost permanent, some distribution cost, some administrative and general costs and some fixed costs.

EKPC proposes that the RTP tariff become effective 4 months after Commission approval.

Discussion

The AG supports approval of EKPC's pilot RTP program subject to four conditions.

First, Commission approval of the RTP program should not be considered as approval of any administrative costs for rate-making purposes in any future rate case proceeding. Second, the RTP program requires continued support and interaction between EKPC and participants. The Commission, therefore, should require EKPC to clearly advise participants of the pilot program's implications and assist participants in

[3] The following is another way to show the method of billing:

RTP Bill = Standard Bill
+ Incremental Energy Charge (the Real-Time Price)
+ RTP Administration Fee

their efforts to reduce and/or shift their demand, including the dissemination of successful techniques to reduce and/or shift demand to maximize program benefits.

Third, the AG requests limits on EKPC's ability to modify the CBL since excessive or frequent modification may affect a participant's decision to undertake conservation or efficiency efforts to reduce or shift its demand in response to the RTP pricing structure or expand operations. The AG urges that EKPC not be allowed to modify the CBL unless a participant achieves a continuing reduction of 10 percent over its initial historical baseline or due to an expansion of its operation, increases its demand 10 percent over its initial historical baseline on a continuing basis.

Fourth, the AG requests that customer equipment costs associated with any upgrades to a participant's metering system be billed and collected on a 12-month period. In support of this condition, he argues that the RTP program is intended to be bill neutral and that a participant, therefore, should experience no changes in its bill over a calendar year if it has not made any conservation measures. Since this 12-month period is the period against which EKPC will determine the monetary consequences to the participant, the customer equipment costs should be billed over this period.

Finally, the AG states that EKPC's objectives for the program are to encourage participants to reduce demand during critical peak hours and shift variable demand to low peak hours. The AG notes that EKPC proposes to collect data from participants for a 3-year period to evaluate whether these objectives are achieved and issue annual reports detailing the results obtained under the program to the Commission. He argues that EKPC's annual report should include:

(1) The current number of program participants.

(2) The type of industry or primary business activity of each participant.

(3) The number of participants that have withdrawn from the program and the reason for such withdrawal.

(4) and (5) The average, minimum and maximum monthly electrical usage and cost for program participants during each 12-month reporting period and the 12-month period immediately preceding enrollment into the program.

(6) All comments and suggestions received from program participants.

(7) An evaluation of the program's effect on EKPC's peak and/or base demand as compared to its historical data for the 12-month period immediately preceding implementation of the program.

(8) A statement by EKPC of whether the program is achieving the stated objectives and an evaluation of the comments and suggestions of the program participants.

(9) The program costs to the date of the report, along with the details of any deviations from the program budget contained in the application submitted herein; and

(10) A cumulative comparison of the information furnished in Items 4 and 5 above to allow year-to-year comparison of program results.

The AG further suggests that such reports be submitted to the Commission and distributed to all parties to this proceeding and that the reports be made a part of the record in this matter.

As previously noted, the AG stated his concerns relating to the ongoing interaction between EKPC and the participants. According to EKPC, the 4 months between Commission approval of the tariff and actual implementation will be used to develop the communication tools necessary to convey day-ahead prices to participants, to educate its Member Systems, to identify candidates for the pilot, to incorporate changes directed by the Commission and to prepare a series of trial runs. EKPC envisions three primary efforts to educate pilot participants on ways to reduce demand or shift load. It will hold an introductory workshop for potential participants. Member Systems and EKPC marketing representatives will interact with participants. Finally, EKPC will hold annual workshops for participants to present successful techniques and experiences.

While we agree that interaction between EKPC, its Member Systems and the participants is important, we find that EKPC's current plans to educate and engage participants are satisfactory. As the proposed tariff requires changes to the CBL to be mutually agreed upon by EKPC, the Member System and the RTP pilot participant, we decline to accept the AG's request for restrictions on EKPC's ability to modify the CBL.

EKPC has postponed any decision to seek recovery of RTP program costs until its next base rate proceeding. EKPC has not requested authority to accrue expenses not recovered through the program charge as a regulatory asset. The Commission notes that the total unrecovered program costs for the period of the pilot program may only be considered for recovery in a future base rate proceeding if those costs are accrued as a regulatory asset rather than expensed. If EKPC elects to expense these unrecovered program costs during the period of the pilot RTP program, only those costs included in the test year of a future base rate case would be considered for recovery in base rates. The Commission interprets the AG's first stated condition not as opposition to deferral but, rather, a statement of his intent to retain his right to address the reasonableness and appropriateness of such costs in EKPC's next base rate case.

Since the Commission directed EKPC to file a proposed RTP program for review, we find that EKPC should be allowed the opportunity to defer the program costs not recovered through the Program Charge for consideration in its next base rate case.

The Commission has reviewed the AG's request that EKPC include certain information in its annual reports and find the request reasonable. In addition, the suggested items are necessary for a full and complete evaluation of the program's operation.

In its application, EKPC included a retail tariff that would allow any of its Member Systems to offer the pilot RTP program to appropriate customers. However, no indication was given that any of the Member Systems would participate. The Commission's Order included the following directive for Big Rivers and EKPC: "Big Rivers and EKPC are directed to work with each other, in conjunction with their member distribution cooperatives, to develop one or more voluntary real-time pricing pilot programs to be offered by a representative but selective group of members to their large commercial and industrial customers."[4]

EKPC states that it will use the 4 months between the Commission's Order approving the pilot RTP program and the effective date of the program to educate its Member Systems about the program and identify Member System candidates for the pilot.[5] In order to place the Member Systems on notice as to the conditions that the Commission will impose if a retail RTP tariff is filed, a copy of this Order will be served on each Member System to ensure the EKPC members have received notice of the Commission's decision. The Commission finds that EKPC should report to the Commission in writing 90 days from the date of this Order the names of the Member System(s) that will participate in the pilot RTP.

---

[4] Administrative Case No. 2006-00045, Order dated December 21, 2006 at 13.

[5] Application at 4.

Subject to the revisions set forth above, the Commission finds that the proposed RTP program should be permitted on a pilot basis. After the program has been in operation for 3 years, the Commission will re-examine the program and determine whether it should continue. Since EKPC will require 4 to 6 months to implement the pilot program, the Commission finds that EKPC should file with the Commission tariff sheets that contain all rates, charges, regulations, and requirements related to the program no later than 30 days before the program's effective date. Any EKPC Member System participating in the program should also file such tariff sheets at least 30 days before the effective date of the program. EKPC should also file with the Commission a report on the pilot program annually within 90 days of the plan year-end and a detailed evaluation of the program within 90 days of the end of the plan's third year.

IT IS THEREFORE ORDERED that:

1. The proposed pilot RTP program is authorized subject to the conditions set forth in this Order.

2. EKPC shall file annual reports with a copy to all parties of record within 90 days of the end of each plan year and each report shall include the items requested by the AG more specifically set forth herein.

3. EKPC shall submit a detailed evaluation of the pilot RTP to the Commission within 90 days from the end of the approved pilot period and shall distribute a copy of the detailed evaluation to all parties to this proceeding.

4. EKPC is authorized to establish a deferred account in which to record unrecovered costs associated with the pilot RTP program.

5. EKPC shall identify Member System participants within 90 days from the date of this Order.

6. EKPC shall file tariffs consistent with this Order, 30 days prior to the proposed effective date of the program.

7. The Executive Director shall serve a copy of this Order upon all EKPC Member Systems.

Done at Frankfort, Kentucky, this 1st day of February, 2008.

By the Commission

ATTEST:

Executive Director