COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JACKSON ENERGY COOPERATIVE CORPORATION FOR APPROVAL OF AN ECONOMIC DEVELOPMENT RIDER	))))	CASE NO. 2014-00047

COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION TO JACKSON ENERGY COOPERATIVE CORPORATION

Jackson Energy Cooperative Corporation ("JECC"), pursuant to 807 KAR 5:001, is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due on or before April 4, 2014. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

JECC shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

JECC fails or refuses to furnish all or part of the requested information, JECC shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. State whether JECC has discussed the proposed Section EDR – Economic Development Rider tariff with any eligible customers to determine the level of interest in the proposed EDR.

2. State whether JECC believes the proposed minimum average monthly billing load requirement of 500 kW set out in the proposed tariff to be a reasonable threshold to set for its proposed EDR Tariff based on its own system.

3. a. State whether JECC believes the 60 percent minimum load factor set out in the proposed tariff is appropriate in achieving the goal of not attracting "customers that would hurt the load factor of EKPC [East Kentucky Power Cooperative, Inc.] or the individual Members."[1]

b. Explain how the 60 percent minimum load factor requirement compares to JECC's average load factor over the past five years.

4. Refer to Case No. 2014-00034, Testimony of Isaac S. Scott ("Scott Testimony"), page 7, lines 12-15, which state, "Therefore, the proposed Section EDR

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[1] Case No. 2014-00034, *Application of East Kentucky Power Cooperative, Inc. for Approval of an Economic Development Rider*, filed Feb. 6, 2014, Testimony of Isaac S. Scott, page 5.

Tariff includes options for discount periods of three years, four years, and five years with corresponding contract terms of six years, eight years, and 10 years." Explain in detail the decision-making process that will be used in determining which of the three time periods to offer to a potential JECC EDR customer.

5. Refer to the Scott Testimony, page 8, line 21, through page 9, line 3, which states, "With the availability of market purchases through PJM, EKPC believes it should be permitted to cover months when excess capacity does not exist with purchases specifically designated to covering the customer with the economic development rate. That customer would then be required in the special contract to pay for the market purchase." Refer also to the February 18, 2014 Memorandum EKPC filed with its fuel adjustment clause attached to this request.

a. Confirm that the parties to the special contract will be EKPC, JECC, and the customer. If this cannot be confirmed, explain.

b. Confirm that JECC agrees with the statements made at Scott Testimony, page 8, line 21, through page 9, line 3. If this cannot be confirmed, explain.

c. Confirm that a customer under a special contract with an EDR provision will receive the EDR discount for nine months, March through November, and then could pay market prices for three months, December through February, each year of the EDR special contract. If this is not the case, provide an explanation.

d. Explain how a customer would have been affected had it been an EDR customer pursuant to JECC's proposed tariff in January 2014. Include in the response a sample bill and the supporting calculations for the amounts included on the bill.

e. State whether the discount the EDR customer would receive during the nine months March through November could be more than offset by any premium it might have to pay for electricity at market prices during the months December through February.

f. The last paragraph of the February 18, 2014, Memorandum states, "As a further consideration, it would be reasonable to expect that during the summer months, EKPC may be called upon by PJM to bring units on to meet energy needs for other PJM members who are experiencing high summer demands. It would appear logical to expect in those situations EKPC could wind up with a net credit position . . . ." State whether JECC believes it is possible that the EDR revenues received by EKPC during the summer peak could be less than the benefit other ratepayers would receive from EKPC's selling of the EDR-related capacity and energy into the PJM market.

6. Refer to the second page of the proposed EDR tariff, section 7, which defines a new customer as one who becomes a customer of JECC on or after January 1, 2013, and to Case No. 2014-00034, page 9 of the Scott Testimony, lines 10-19, wherein Mr. Scott discusses this customer definition.

a. State the number of new and existing customers who began service on or after January 1, 2013, that JECC would consider eligible for the EDR. Provide the average monthly billing load and average monthly load factor for those customers.

b. State whether qualifying customers initiating service after January 1, 2013, were told they would be eligible for a future EDR.

c. State whether using the date of January 1, 2013, as the date after which a customer is eligible for the EDR tariff creates a free-rider problem.

7. Refer to Case No. 2014-00034, page 10 of the Scott Testimony, lines 13-17, which reference Finding Paragraph 4 of the Commission's September 25, 1990, Order in Administrative Case No. 327.[2] That finding paragraph provides that the minimum bill should be included in an EDR contract. State whether JECC intends to include the minimum bill in executed EDR contracts.

8. Refer to the Scott Testimony, page 10, lines 21-23, which state, "The Section EDR tariff states that customer-specific fixed costs will not be borne by EKPC's or the Member's other customers during the term of the contract." Confirm that page 2, Item 6) of JECC's proposed Section EDR tariff, which states, "Any EDR customer-specific fixed costs shall be recovered over the life of the special contract," is intended to encompass Item 3) of the tariff, which specifies that the cost of a customer-specific meter installation will be recovered *from the customer*.

9. Refer to the Scott Testimony, pages 10-15, in which the individual findings from the Commission's Order in Administrative Case No. 327 are discussed. State whether JECC likewise agrees to the commitments EKPC makes with regard to these findings.

10. Refer to the Scott Testimony, page 13, beginning at line 21, which states, "Finding No. 13 – EDR contracts designed to retain the load of existing customers should be accompanied by an affidavit of the customer stating that, without the rate

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[2] An Investigation into the Implementation of Economic Development Rates by Electric and Gas Utilities (Ky. PSC Sept. 24, 1990).

discount, operations will cease or be severely restricted. In addition, the utility must demonstrate the financial hardship experienced by the customer." Mr. Scott goes on to state on page 14, line 9, "However, if EKPC and its Members conclude it was in their best interest to enter into a special contract associated with the proposed Section EDR tariff that was designed to retain the load of an existing customer, EKPC or the Member (as applicable) would comply with the provisions of this guideline."

a. State whether it is JECC's intention to revise its proposed EDR tariff to provide for the possibility of offering an EDR special contract to retain the load of an existing customer. If so, provide the revision. If not, and if JECC concludes it is in its best interest to enter into such a contract, state how JECC believes the EDR tariff as proposed can be used for retaining existing load.

b. Suppose JECC were to face the hypothetical situation in which it had two customers, both located in the same "Enhanced Incentive County." Further, suppose that the customers were identical in every way, except that one was a newly located customer and the other was a 20-year member of the cooperative whose operations would cease or be severely restricted absent an EDR contract. Explain whether JECC believes it would be reasonable and in line with its economic development goals to grant the newly located customer a special contract with a Section EDR provision and to deny the longtime member of the cooperative the kind of EDR special contract that was contemplated by the Order in Administrative Case No. 327.

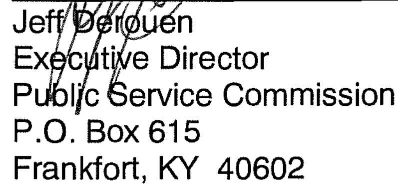
11. Refer to the second page of the proposed Section EDR. The proposed language indicates that a new or existing customer eligible for a minimum average

monthly billing load between 250 kW and 500 kW "may require a customer-specific meter installation," and that the cost of the installed meter "shall be recovered from the customer."

a. State whether new or existing loads in excess of 500 kW could require a similar customer-specific meter installation.

b. Provide a description of the cost-recovery mechanism planned by JECC and a breakdown, if possible, of the anticipated cost of installation.

12. Refer to page 3 of 4 of the proposed Section EDR tariff. Explain the need for the statement, "The discount will not be smaller than the amount calculated from the EKPC rate sections," that appears in the middle of the page.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED MAR 2 1 2014

cc: Parties of Record

MEMORANDUM

RECEIVED

FEB 18 2014

PUBLIC SERVICE
COMMISSION

TO: Public Service Commission
Division of Financial Analysis
Daryl Newby, Director
Chris Whelan, Rate Analyst

FROM: East Kentucky Power Cooperative, Inc. ("EKPC")
Mike McNalley, Executive VP and CFO
Patrick Woods, Director, Regulatory and Compliance Services
Isaac S. Scott, Pricing Manager

DATE: February 18, 2014

RE: January 2014 Fuel Costs

As a result of the exceptionally cold weather experienced in January 2014, EKPC set two new total system peaks during the month. A peak of 3,401 MW was set on January 6th and a peak of 3,425 MW was set on January 29th. These new peaks exceeded the former record peak, set in 2009, by approximately 250 MW. In addition to the two new peaks, EKPC experienced 23 hours during January where the demand was above the 2009 peak. All available EKPC generating assets were running during these new peak times. Because of our membership in PJM, EKPC was able to purchase power in the market to meet this demand. Without these purchases, EKPC would have been forced to initiate curtailments of load in the magnitude of approximately 450 MW.

The January 2014 cold weather was the first significant event EKPC has experienced since joining PJM. Because of the purchases needed to meet our native load, EKPC has incurred additional costs from PJM. These costs have primarily been related to two PJM billing codes: Code 1375 – Balancing Operating Reserves (Balancing Charges) and Code 2375 – Balancing Operating Reserves (Balancing Credits). In addition, EKPC has incurred charges for the additional energy purchased from the PJM market to meet native load requirements beyond that provided by EKPC's own generating assets.

As defined by PJM, the costs included in Code 1375 are the total daily costs of operating reserve in the balancing market related to resources identified as Credits for Deviations and is allocated based on regional shares of real time locational deviations from the day-ahead scheduled quantities of (1) cleared generation offers (only for generating units not following PJM dispatch instructions and not assessed deviations based on their real time desired MWh); (2) cleared incremental offers and purchase transactions; and (3) cleared demand bids, decrement bids, and sale transactions.

PJM defines the costs included in Code 2375 as the daily credits for specified operating period segments provided to eligible pool-scheduled generators, demand response, and import

transactions in real time for any portion of their offer amount in excess of (1) scheduled MWh times day-ahead bus LMP; (2) MWh deviation from day-ahead schedule times real time bus LMP; (3) any day-ahead operating reserve credits; (4) any day-ahead scheduling reserve market revenues in excess of offer plus opportunity cost; (5) any synchronized reserve market revenues in excess of offer plus opportunity, energy use, and startup costs; (6) any non-synchronized reserve market revenues in excess of opportunity costs and (7) any applicable reactive services credits. Cancellation credits are based on actual costs submitted to PJM Market Settlements. Credits for lost opportunity costs are also provided to generators reduced or suspended by PJM for reliability purposes.

EKPC has been examining the eligibility of including the net cost of energy purchases and the PJM billing codes for recovery through its fuel adjustment clause ("FAC"). EKPC has been reviewing the nature of the costs included in the two billing codes; the provisions of 807 KAR 5:056, the FAC regulation; and the Commission's May 2, 2002 Order in Case No. 2000-00496-B concerning the treatment of non-economy energy purchases.

EKPC's review of 807 KAR 5:056 has centered on the definition of what constitutes a fuel cost that can be recovered through the FAC, specifically Section 1(3)(b) and 1(3)(c):

> (b) The actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in paragraph (c) of this subsection, but excluding the cost of fuel related to purchases to substitute for the forced outages; plus
>
> (c) The net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis. Included therein may be such costs as the charges for economy energy purchases and the charges as a result of scheduled outage, all such kinds of energy being purchased by the buyer to ***substitute*** for its own higher cost energy . . . (emphasis added)

In the Order in Case No. 2000-00496-B, the Commission interpreted the FAC regulation as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. The Commission defined non-economy energy purchases as purchases made to serve native load that have an energy cost greater than the avoided variable cost of the utility's highest cost generating unit available to serve native load during that FAC expense month. In its March 21, 2005 Order in Case No. 2004-00430, the Commission revised the definition of non-economy energy purchases to recognize that the energy costs of such purchases may be greater or less than the variable cost of the highest cost generating unit available to serve native load.

It appears that 807 KAR 5:056, Section 1(3)(c) – economy energy purchases – and the Commission's interpretation concerning non-economy energy purchases in Case No. 2000-00496-B are both based on a scenario where the utility has the option of running its own generation or purchasing energy to meet its native load. This substitution scenario is not what EKPC faced in January 2014 when the new peaks and the 23 hours of demand higher than the

former peak were experienced. All available EKPC generation was running but was not enough to cover the demands for the native load. The purchases through PJM were in addition to, not a substitute for, the generation from all of EKPC's available generation. The situation was one of purchase versus curtailment, not purchase versus run our own generation.

Based on this review, EKPC believes that the costs for the additional purchases of energy from PJM are includable for recovery through the FAC. The cost for the actual purchase of energy from PJM appear to be allowable under 807 KAR 5:056, Section 1(3)(b), as this was not a situation of substituting EKPC generation for market purchases or related to scheduled outages. Concerning the PJM billing codes 1375 and 2375, EKPC had previously indicated to the Commission Staff that initially it was not going to include these codes in its FAC calculations, but that EKPC was continuing to review and evaluate the nature and operation of these billing codes. The peak demand events in January 2014 have affected EKPC's previous evaluation of these billing codes. The Balancing Operating Reserve billing codes reflect the charges and credits resulting from generators in PJM being called upon to bring units on to provide energy beyond the levels having already cleared the market. EKPC was a purchaser of this additional generation in order to meet our native load requirements during the peak periods in January 2014 and it is reasonable that the net of billing codes 1375 and 2375 should be included in the FAC for recovery.

As a further consideration, it would be reasonable to expect that during the summer months, EKPC may be called upon by PJM to bring units on to meet energy needs for other PJM members who are experiencing high summer demands. It would appear logical to expect in those situations EKPC could wind up with a net credit position when looking at codes 1375 and 2375. Consistent with the position expressed above, that net credit would also be included in EKPC's FAC calculations.

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