JACKSON ENERGY
COOPERATIVE
A Touchstone Energy Cooperative

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RECEIVED

APR 4 2014

PUBLIC SERVICE
COMMISSION

April 3, 2014

Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
PO Box 615
Frankfort, KY 40602-0615

Re: Application for Approval of an Economic Development Rider
Case No. 2014-00047

Mr. Derouen:

Please find attached documentation concerning Jackson Energy Cooperative's response to Commission's initial request for information for Application for Approval of an Economic Development Rider. I have enclosed an original and ten copies of the responses.

Please inform me of any additional information necessary for this application.

Sincerely,

Clayton O. Oswald
Attorney for Jackson Energy Cooperative

COO/cr

STATE OF KENTUCKY)

COUNTY OF JACKSON)

I, Carol Wright, state that I am President & CEO of Jackson Energy Cooperative, that I have personal knowledge of the matters set forth in this response to the Commission's request for Case No. 2014-00047, and that the statements and calculations contained in each are true as I verily believe.

This 3rd day of April 2014.

Carol Wright

Carol Wright

SUBSCRIBED AND SWORN to before me by Carol Wright this 3rd day of April, 2014.

Connie Reid #470311

Notary Public, KY State at Large

My Commission Expires: 7-30-16

**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** |

**RESPONSES TO COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION TO JACKSON ENERGY COOPERATIVE CORPORATION DATED MARCH 21, 2014**

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 1**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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.

**Response 1.**
Jackson Energy has discussed the proposed EDR with one eligible large industrial customer who began expanding their operations in May 2013. In August of 2013, the customer informed Jackson Energy that they were in the process of evaluating moving their existing operations from Kentucky to Arkansas. Jackson Energy discussed the proposed EDR with the customer noting that the proposed EDR was a draft and final approval must be obtained from the KY PSC.

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 2**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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.

**Response 2.**
Jackson Energy feels this is a reasonable threshold to encourage economic development in our service territory.

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 3**
**RESPONSIBLE PARTY: Carol Wright**

**Request 3a.**
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."

**Response 3a.**
Jackson Energy believes the 60% load factor is appropriate for this proposed tariff.

**Request 3b.**
Explain how the 60 percent minimum load factor requirement compares to JECC's average load factor over the past five years.

**Response 3b.**
JECC's average load factor for the five previous calendar years is as follows:

| | |
|---|---|
| Calendar Year 2009 | 57.71% |
| Calendar Year 2010 | 62.02% |
| Calendar Year 2011 | 57.19% |
| Calendar Year 2012 | 57.60% |
| Calendar Year 2013 | 58.70% |

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 4**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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 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.

**Response 4.**

The EDR tariff states that service is conditional on approval of a special contract between EKPC, JECC, and the eligible customer filed and approved by the KY PSC. The determination of the discount period will be the subject of negotiations in the special contract and will be done on a case by case basis to determine which discount period is appropriate.

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 5**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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.

**Request 5a.**
Confirm that the parties to the special contract will be EKPC, JECC, and the customer. If this cannot be confirmed, explain.

**Response 5a.**
The parties to the special contract will be EKPC, JECC, and the eligible customer.

**Request 5b.**
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.

**Response 5b.**

Jackson Energy confirms its agreement with the referenced statements in the Scott Testimony filed in Case No. 2014-00034.

**Request 5c.**

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.

**Response 5c.**

The pricing plan described in Request 5(c) does not reflect Jackson Energy's proposed EDR tariff. Under Jackson Energy's proposed tariff, a customer taking service under the EDR shall be served according to all of the rates, terms, and conditions of the normally applicable rate schedule subject to the listed discount options.

Jackson Energy would note that EKPC's application included a request to be permitted to offer the EDR tariff during either periods of excess capacity or when the additional capacity needs are secured through a market purchase agreement. EKPC anticipated that any costs associated with such a market purchase agreement would be included on the customer bill as a separate item. EKPC has stated in its response to Request 6(b) of the Commission Staff's Initial Request for Information dated March 7, 2014 in Case No. 2014-00034 ("Staff's Initial Request") that it did not mean to imply that market prices for capacity would be substituted for the demand charges billed as part of the EDR. Jackson Energy confirms that it also did not mean to imply that market prices for capacity would be substituted for the demand charges billed as part of its proposed EDR.

**Request 5d.**

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.

**Response 5d.**

For a Commission-approved three-party EDR special contract in existence in January 2014, Jackson Energy would have been billed under the applicable EKPC rate schedules and the retail customer would have been billed under the applicable Jackson Energy rate schedules. The demand charge discount would have been applied consistent with the provisions of the EDR special contract. Both billings would have included charges for the applicable fuel adjustment clause ("FAC") and environmental surcharge. The retail customer's bill would have included applicable school and sales taxes.

As stated in EKPC's response to Request 6(c) of the Staff's Initial Request, if the EDR special contract became effective in 2013 after the applicable PJM Incremental Auction, there would not have been a separate charge for any purchased capacity. Jackson Energy would also note that the increased costs EKPC experienced in January 2014 were related to purchases of energy in the PJM market, not capacity purchases. Those energy market purchases would have impacted an EDR customer in the same manner that all other customers were impacted – through the FAC that was billed. Jackson Energy would further note that due to the billing lag incorporated into the FAC, the retail customer would not have seen the impact of the January 2014 energy market purchases on its bill until March 2014.

Jackson Energy has prepared a sample bill for an EDR customer, but has had to make several assumptions for this calculation:

1. The EDR customer is a new customer, who is billed under EKPC's Rate B and Jackson Energy's Rate Schedule 47.
2. The EDR contract calls for a three-year discount period and the January 2014 bill falls in the first 12 months of the EDR contract. The discount would be 30 percent.
3. The parties agreed in the EDR contract that the discount would be based on EKPC's Rate B. The demand charge under Rate B is $7.17 per kW.
4. The billing load is 500 kW and assuming a 60 percent load factor, the billed energy is 219,000 kWh; there was no excess demand in the billing month.

The sample bill for January 2014 would be:

| | |
|---|---|
| Customer Charge (per Schedule 47) | $1,079.86 |
| Demand Charge (500 kW x $6.84) | $3,420.00 |
| Demand Discount (500 kW x ($7.17 x 30%)) | $-1,075.50 |
| Energy Charge (219,000 kWh x $0.05206) | $11,401.14 |
| FAC (219,000 kWh x 0.00224) | $490.56 |
| Environmental Surcharge (Net bill x 0.10260) | $1,571.43 |
| School Tax (3%) | $506.62 |
| Sales Tax (6%) | $1,043.65 |
| Total Sample Bill: | $18,437.76 |

**<u>Request 5e.</u>**

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.

**Response 5e.**

As noted in the response to Request 5(c), Jackson Energy is not proposing an EDR tariff that offers discounted rates for nine months of the year and charges market prices during the winter period. Consequently, Jackson Energy cannot provide a reasonable response to the request as stated. Please also see EKPC's response to Request 6(d) of the Staff's Initial Request.

**Request 5f.**

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 the EDR-related capacity and energy into the PJM market.

**Response 5f.**

Jackson Energy has an obligation to serve the customers in its service territory. The fact that EKPC joined PJM did not in any way reduce or eliminate that obligation to serve. While Jackson Energy certainly expects EKPC to maximize the benefits that can be achieved from the EKPC generating assets, the first priority is meeting the requirements of the native load.

Based on Jackson Energy's understanding of the operation of the PJM markets, it would certainly be possible that the EDR revenues received by EKPC during the summer peak could be less or more than the benefit other ratepayers could receive from EKPC's selling the EDR-related capacity and energy into the PJM market. However, given the historic obligation to serve native load, Jackson Energy does not believe such a comparison is reasonable or warranted.

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 6**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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.

**Request 6a.**
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.

**Response 6a.**
Only one existing customer would be eligible for the EDR who began expanding operations after January 1, 2013. The average monthly billing load for that customer is 1561 kW and the average monthly load factor is 71.77 percent.

**Request 6b.**
State whether qualifying customers who initiated service after January 1, 2013, were told they would be eligible for a future EDR.

**Response 6b.**

The one eligible customer was informed that the EDR was being proposed and final approval had to be obtained from the KY PSC before the tariff could be offered and the special contract must also be approved by the KY PSC.

**Request 6c.**

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.

**Response 6c.**

JECC does not understand the term "free rider problem" referenced in this request. However, JECC understands that although the proposed eligibility date is January 1, 2013, the EDR will not become effective until a three-party special contract has been signed by the parties and approved by the Commission. Until the three-party special contract is approved by the Commission, the potential EDR customer would not receive any discounts. There will be no retroactive application of the discounts after the Commission's approval of the three-party special contract.

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 7**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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. 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.

**Response 7.**

The minimum bill will be included in the special contract for the EDR.

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 8**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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*.

**Response 8.**

JECC believes that the cost of a customer-specific meter installation should be considered a customer-specific fixed cost, and therefore confirms that page 2, Item 6) of the proposed EDR tariff encompasses page 2, Item 3). However, EKPC provides the meter for contract loads and currently does not charge for a meter associated with a contract load. And since all EDR arrangements will be special contracts with EKPC, JECC understands that there would be no charge for any customer-specific meter installations.

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 9**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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.

**Response 9.**

Jackson Energy acknowledges that any EDR special contract reached between EKPC, Jackson Energy, and the EDR customer will need to be consistent with the guidelines the Commission established in its 1990 Order in Administrative Case No. 327. Consequently, Jackson Energy is agreeable to the commitments EKPC has stated in the Scott Testimony in Case No. 2013-00034, pages 10 through 15.

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 10**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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 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 interests 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."

**Request 10a.**

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 interests to enter into such a contract, state how JECC believes the EDR tariff as proposed can be used for retaining existing load.

**Response 10a.**

JECC does not intend 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 who, without the rate discount, would cease operations or be severely restricted. JECC wants to encourage new customers to locate in its service territory and encourage existing customers to expand their current operations.

**Request 10b.**

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.

**Response 10b.**

JECC does believe that the EDR could be utilized to retain an existing customer. However, JECC prefers that the primary usage of the EDR should be to encourage new customers to locate in JECC's service territory or promote existing customers to expand their existing operations. JECC notes that the Commission stated in its September 24, 1990 Order in Administrative Case No. 327 "The Commission finds that EDR's used for the purpose of retaining existing load should be strictly limited and closely monitored."

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 11**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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."

**Request 11a.**

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

**Response 11a.**

Commercial and industrial customers already served under JECC's Rate 46 or Rate 47 have a customer-specific meter installation in conjunction with receiving service under those rate schedules. The minimum load requirement to qualify for Rate 46 or Rate 47 is 500 kW.

**Request 11b.**

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

**Response 11b.**

EKPC provides the meter for contract loads exceeding 500 kW and EKPC's current policy does not charge for a meter associated with a contract load. EKPC has noted that while preparing the proposed tariff the fact that EKPC does not charge for a meter associated with a contract load was overlooked. Since all EDR arrangements will be special contracts and under EKPC's current policy, there would be no charge for any customer-specific meter installations.

**JACKSON ENERGY COOPERATIVE CORPORATION**
**PSC CASE NO. 2014-00047**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION DATED 03/21/14**
**REQUEST 12**
**RESPONSIBLE PARTY: Carol Wright**

**Request 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.

**Response 12.**

The discount on the demand will be based on EKPC's demand rate on the respective tariff and noted in the special contract. There are differences between the demand rates authorized for EKPC and Jackson Energy. In addition, EKPC bills on coincident peak and Jackson Energy bills on peak system demand. In order to provide simplicity and clarity, it was determined that offering the EKPC-based discount was the most reasonable approach.