Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

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

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda Breathitt
Commissioner

May 16, 2014

PARTIES OF RECORD

Re: Case No. 2014-00034
Case No. 2014-00047

Attached is a copy of a memorandum which is being filed in the records of the above-referenced cases. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Jonathan Beyer, Commission Counsel, at 502/782-2581.

Sincerely,

Jeff Derouen
Executive Director

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File – Case No. 2014-00034
Case No. 2014-00047

FROM: Jonathan Beyer, Staff Attorney

DATE: May 16, 2014

RE: Informal Conference of May 7, 2014

Pursuant to the Commission's May 1, 2014, Order, an informal conference was held in this matter on May 7, 2014. A list of attendees is attached to this memorandum.

Beginning the conference, Ms. Carol Wright with Jackson Energy Cooperative Corporation ("Jackson Energy") stated that the proposed Economic Development Rider ("EDR") was developed by East Kentucky Power Cooperative, Inc. ("EKPC") at Jackson Energy's request. On behalf of EKPC, Mr. Isaac Scott gave an overview of the EDR as proposed by EKPC and distributed the attached handout. Mr. Scott and Ms. Wright answered clarifying questions concerning the applications and proposed tariffs. Mr. Scott stated that he believed all the EKPC cooperatives are considering filing applications for EDR tariffs with the Commission, but are waiting for EKPC's and Jackson Energy's tariffs to be approved.

The details of the proposed EDR tariffs were discussed. EKPC and Jackson Energy indicated that the actual terms of any EDR would be controlled by the special contracts executed among EKPC, Jackson Energy, and the customer.

Ms. Wright indicated that Jackson Energy has only one customer who would qualify as a "new customer" as that term is defined under its proposed EDR. The proposed EDR tariff defines a "new customer" as one who becomes a Jackson Energy customer on or after January 1, 2013. She stated that this potential EDR customer became a Jackson Energy customer mid-2013, and that the customer may leave the state absent the EDR incentive. If the EDR incentive were offered to this customer, Ms. Wright indicated that it is possible that the customer not only keep its operations in Kentucky but will also expand its facilities.

The parties discussed the details of the required load capacity factors and the one year grace period within which to sustain a sufficient load factor to remain eligible for the EDR incentives. Ms. Wright indicated after the grace period, failure to maintain the load factor for more than 5/6 of the remaining months in the discount period would cause the customer to lose the benefit of the discount for those months in which the customer does not meet the minimum load requirement. However, the discount would still apply in the months in which the minimum load factor is met. The discount will originate with EKPC who will pass it on to the participating distribution cooperative. The distribution cooperative may pass an equal or greater discount to its customers as provided for in a special contract.

Mr. Scott indicated a desire to maintain the current proposed tariff language pertaining to payment for meters. He indicated that the meter costs are not currently assessed to customers and the costs are included in base rates. The parties were unclear as to the treatment of EDR revenues in a future rate case.

Finally, EKPC and Jackson Energy representatives agreed that there is not a specific time sensitive date for final Orders in these matters; however Ms. Wright stated that Jackson Energy would prefer an expeditious resolution. Ms. Wright stated that the property lease for the previously mentioned customer who would be eligible for a special contract under the EDR is expiring in June.

Finding that no party had any further questions, the conference was adjourned.

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

May 7, 2014

Please sign in:

NAME	REPRESENTING
Jonathan Beyer	PSC
Leah Faulkner	PSC-FA
Quang D. Nguyen	PSC
Errol K. Wagner	PSC-FA
David Edward Spenard	PSC - General Counsel's office
Matthew Baer	PSC-FA
David Samford	Goss Samford, PLLC - EKPC
Isaac S. Scott	EKPC
Carol Wright	Jackson Energy
Clayton Oswald	Taylor, Keller + Oswald - JEC
Patrick Woods	EKPC
Fereydoon Gorjian	PSC - Engineering

NAME	REPRESENTING
Rodney Hitch	East Ky Power Corp
Chris Whelan	PSC - FA

Economic Development Rider "EDR" Tariff

Case Nos. 2014-00034 and 2014-00047

Informal Conference – May 7, 2014

EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy Cooperative

Background

- EKPC filed its application for the EDR tariff on February 6, 2014 and Jackson Energy filed its companion case on February 13, 2014.

- Available to Members' qualifying non-residential customers (Commercial and Industrial); both new customers or expanding existing customers eligible.

- Service under EKPC Rates B, C, E, and G.
  - Tariff minimum contract loads for Rates B and C is 500 kW.
  - Loads between 250 kW and 500 kW would be under Rate E.
  - Rate G is usually applied to large loads in excess of 15,000 kW.

- EKPC believes that several of its Members will file applications to establish corresponding EDR tariffs, but are waiting to file until after EKPC's EDR tariff case is concluded.

Background (continued)

- The proposed EDR tariff is a means to make potential customers aware that EKPC and its Members are willing to consider an EDR when certain baseline criteria are satisfied.

- A special contract is required and subject to Commission approval.
  - The negotiated special contract will contain the specific terms and conditions of the incentive, not the tariff.
  - The special contract will have to be consistent with Commission guidelines from Administrative Case No. 327 or explain why a deviation is reasonable.

Monthly Billing Load

- Minimum average monthly billing load of 500 kW over a 12-month period in counties not designated as Enhanced Incentive County.
- If locating in a county designated as an "Enhanced Incentive County" then minimum average monthly billing load reduced to 250 kW over a 12-month period.
- "Enhanced Incentive County" determined by Economic Development Cabinet and updated annually; for 2013-2014 period, 72 counties are currently designated "Enhanced Incentive Counties".
- For existing customers, minimum average monthly billing load is above customer's previous 3 years' monthly billing loads.
- A new customer is defined as one who becomes a customer of a Member on or after January 1, 2013.

Minimum Load Factor

- Minimum load factor of 60% required for either new or expanding existing customers during the discount period.
- To allow for "ramp up" of operations, minimum load factor requirement waived for first 12 months of discount period.
- During remaining months of discount period, load factor will be determined monthly.
- During remaining months of discount period, customer may fail to achieve 60% load factor 1/6th of the remaining months of the discount period.
- Example: For a 5-year discount period, first 12 months is waived and failure to meet 60% load factor is allowed for 8 more months (60 months – first 12 months = 48 months x 1/6 = 8 months).

Minimum Load Factor (continued)

- In any month the customer fails to meet 60% load factor beyond the $1/6^{th}$ allowance, the discount to the Total Demand Charge will be suspended for that month.

- After the suspension, the discount to the Total Demand Charge will resume in any month where the customer achieves a 60% load factor. However, suspension does not lengthen the discount period of the contract.

- Example: A customer with a 5-year discount period fails to meet the 60% load factor in 4 months of the 2^{nd} year and 4 months of the 3^{rd} year – the allowed 8 months. Failure to meet 60% load factor in any month of the 4^{th} and 5^{th} years will result in suspension of the discount for that month. Achieving 60% load factor in any month in the 4^{th} or 5^{th} years will restore the discount at the appropriate discount rate.

Contract Term and Discount Periods

- The term of the special contract must be double the discount period and the maximum discount period is 5 years.
- EKPC believes flexibility is needed, and proposes to offer discount periods of 3, 4, or 5 years; results in contracts with terms of 6, 8 , or 10 years.
- 3-year discount period has percentages of 30% for first 12 months, 20% for next 12 months, and 10% for final 12 months.
- 4-year discount period has percentages of 40% for first 12 months, 30% for next 12 months, 20% for next 12 months, and 10% for final 12 months.
- 5-year discount period has percentages of 50% for first 12 months, 40% for next 12 months, 30% for next 12 months, 20% for next 12 months, and 10% for final 12 months.

Contract Term and Discount Periods (continued)

- Percentage reduction is applied to the Total Demand Charge (sum of all applicable demand charges before the EDR is applied).

- Regular tariff rates charged after the end of the discount period and for remainder of the contract term; regular tariff rates will be charged in months when the customer fails to meet the minimum 60% load factor requirement.

- The discount will not be smaller than the amount calculated from the EKPC rates.
  - Demand charge rates for EKPC and Members are not the same.
  - EKPC billing demand is based on system-wide coincident peak while Member billing demand generally is based on the highest average rate that energy is used during on-peak periods for that Member.
  - A larger discount based on the Member's demand charge could be considered during special contract negotiations.

Recovery of Customer-Specific Costs

- Any customer-specific fixed costs will be recovered from the customer over the life of the special contract.

- The proposed tariff states a customer-specific meter installation may be required, and if so, the cost will be recovered from the customer.
  - EKPC currently does not charge for meter installations and this fact will be disclosed to the customer during special contract negotiations.
  - Retention of this provision in the tariff stresses that customer-specific costs will be recovered from the customer rather than be socialized across all customers.

Excess Capacity and Acquired Capacity

- The Commission's September 24, 1990 Order in Admin 327 required that EDRs should only be offered during periods of excess capacity, with the utility demonstrating that the load expected to be served during each year of the contract period will not cause the utility to fall below a reserve margin that is considered essential for system reliability.

- The development of wholesale capacity and energy markets, as well as the advent of Regional Transmission Organizations, have provided opportunities for utilities to utilize market purchases to cover capacity needs.

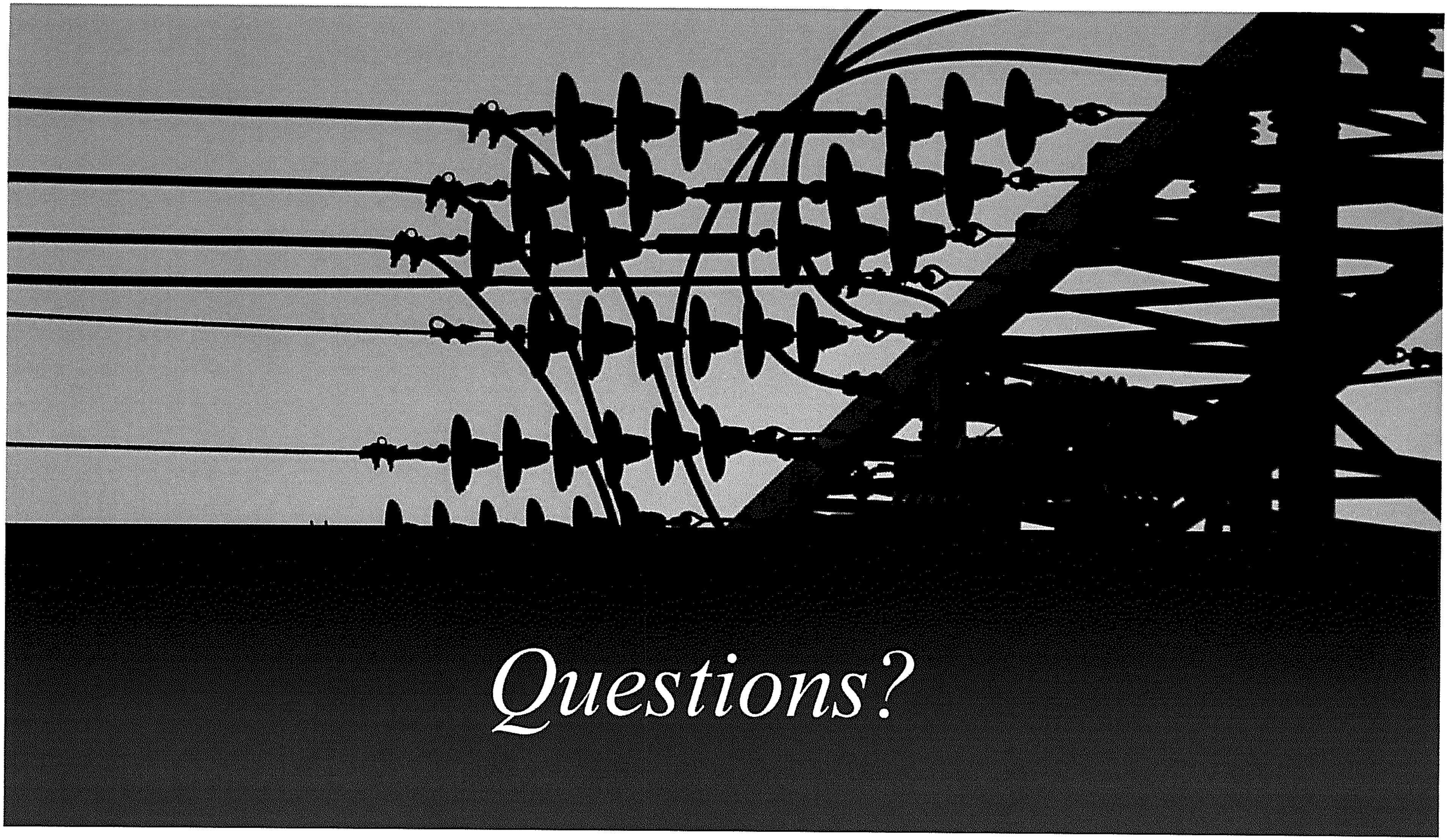
- EKPC has requested it be permitted to cover months when excess capacity does not exist on its system with market purchase agreements and the cost for any executed market purchase agreements would be borne by the EDR customer.

Excess Capacity and Acquired Capacity (continued)

- The cost of any purchased capacity will be determined from the results of the PJM Incremental Auctions.

- The cost of any purchased capacity would be included as a separate cost on the customer's monthly bill. The possibility of such costs and how the costs would appear on the bill would be discussed during the special contract negotiations.

- The demand charges included on the customer's monthly bill would reflect existing tariff rate schedules; market prices for demand would not be substituted for demand charges from existing tariff rate schedules.



Case Nos. 2014-00034 and 2014-00047

Informal Conference – May 7, 2014

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