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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF EAST KENTUCKY POWER	)	
COOPERATIVE, INC. FOR DEVIATION	)	**CASE NO.**
FROM OBLIGATION RESULTING FROM	)	**2015-00358**
CASE NO. 2012-00169	)	

NOTICE OF FILING

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by counsel, and hereby tenders for filing in the above-captioned proceeding the attached response to a request for information made by Kentucky Industrial Utility Customers, Inc., at the informal conference held herein on January 29, 2016. The attached response concerns a proposed capital credit allocation methodology that has been discussed by the parties and Commission Staff, and it is subject to a motion for confidential treatment filed contemporaneously herewith.

This 26th day of February, 2016.

Respectfully submitted,

Mark David Goss
David S. Samford
M. Evan Buckley
GOSS SAMFORD, PLLC
2365 Harrodsburg Road, Suite B-325
Lexington, KY 40504
(859) 368-7740
mdgoss@gosssamfordlaw.com
david@gosssamfordlaw.com
ebuckley@gosssamfordlaw.com

Counsel for East Kentucky Power Cooperative, Inc.

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing was served by depositing same into the custody and care of the U. S. Mail, postage pre-paid, on this 26th day of February, 2016, addressed to the following:

Michael L. Kurtz
Jody M. Kyler Cohn
Kurt J. Boehm
Boehm, Kurtz & Lowry
35 East Seventh Street, Suite 1510
Cincinnati, OH 45202

Rebecca Goodman, Assistant Attorney General
Larry Cook, Assistant Attorney General
Office of the Attorney General
Office of Utility and Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Counsel for East Kentucky Power Cooperative, Inc.

Allocation Options for Capital Credit Payment
PJM Capacity Market Benefit

EKPC has been reviewing several options for the allocation of a capital credit payment reflecting the PJM Capacity Market Benefit. There are two primary issues: how to assign the payments by customer (rate) class, and how to ensure those payments pass through to individual retail customers fairly and appropriately.

In considering options to assign capital credit payments to rate classes, we focused on options that were demand-based because the PJM capacity market benefits are a capacity benefit, and that capacity has been paid for primarily through demand charges. The challenge, as we have discussed previously, is how to carry the allocation down to the retail customer level for that portion of the demand represented in EKPC's Rate E (there is no demand charge associated with the retail Rate E, instead those costs are bundled into the energy charge).

Options

We believe the following allocation options are the most realistic and reasonable:

- Option A – Initial allocation to EKPC Rate Schedules using total EKPC billing demand, exclusive of interruptible demands, for all of 2015.

- Option B – Initial allocation to EKPC Rate Schedule using total EKPC billing demand, exclusive of interruptible demand, experienced in February 2015, the month of EKPC's system peak in 2015.

Under either option, the initial allocation to EKPC's Rate E would be further allocated to better match with retail customer groups (residential, small commercial/industrial, etc.). This allocation would be based on the actual kWh sales reported by the Members for the most recently available calendar year (2014 data was used for this example).

Comparison of Allocation Options		
Rate Schedule	Option A	Option B
EKPC Rate B	5.839%	3.651%
EKPC Rate C	2.467%	1.701%
EKPC Rate E	86.869%	91.544%
EKPC Rate G	2.476%	1.592%
Special Contract Nucor Steel	0.676%	0.432%
Special Contract TGP	1.674%	1.076%
Further Allocation of EKPC Rate E		
Residential	76.186%	76.186%
Commercial/Industrial not part of EKPC Rates B, C or G or Special Contracts	23.283%	23.283%
Public Streets/Highway Lighting	0.106%	0.106%
Other Customers	0.424%	0.424%

Allocation Example

To get an idea of how the allocation would work, EKPC has modeled the allocation of capital credit payments for 2017, 2018, and 2019. The amounts are based on the annual capital credit payments indicated from EKPC's financial forecast and do not include any allowance for potential PJM penalties. For this modeling the annual periods were used, but we could use a levelized approach across the three calendar years with a reserve for penalties.

Comparison of Allocation Options – Example						
Rate Schedule	2017 - $[redacted]		2018 - $[redacted]		2019 - $[redacted]	
	Option A	Option B	Option A	Option B	Option A	Option B
Rate B	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Rate C	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Rate E	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Rate G	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SC – Nucor	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SC – TGP	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Totals	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Further Allocation of Rate E						
Residential	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Commercial – Industrial, Not Rates B, C, G or Special Contract	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Public Streets Highway Lighting	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Other Customers	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Rounding	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Totals	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Allocation Example – Possible Monthly Bill Credits

To complete the example, a calculation of possible monthly credits for the customer groups was performed. For Rates B, C, G, and Special Contracts, a monthly credit per kW is calculated based on EKPC demand data. This amount would flow-through the Members to the retail customer with no adjustment. For Rate E – Residential, a monthly per customer credit is calculated based on the average number of residential customers using Member data. For the remaining Rate E customer groups, a monthly credit per kWh is calculated based on Member actual kWh sales data.

Comparison of Allocation Options – Example – Possible Monthly Bill Credits							
Rate Schedule	Bill Credit Unit	2017		2018		2019	
		Option A	Option B	Option A	Option B	Option A	Option B
B, C, G and Special Contracts	Per kW	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
E – Residential	Per Customer	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
E – Commercial Industrial	Per kWh	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
E – Public St. Highway Lighting	Per kWh	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
E – Other Customers	Per kWh	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

The second issue is identifying a method of paying the capital credits that is fair and appropriate for these payments. Because each of EKPC's Owner-Member systems has its own capital credit payment practices (and some may not pay at all), these PJM benefit payments should be designed to "stand alone" and may require a unique payment method so that it can be uniformly applied across all Owner-Member systems. However, some Owner-Member systems may feel that the retail members would be better off allowing the Owner-Member system to retain the benefit and forestall a rate case rather than pass it through and then seek a rate case. During a regular general retirement of capital credits, there is an identification of whether the retirement has been based on a first-in, first out ("FIFO") approach, a last-in, first-out ("LIFO") approach, or a hybrid of the two approaches or some other method. While the capital credit payments being considered here would be a special case, the issue of FIFO, LIFO, or an alternative will have to be considered and discussed with the Owner-Members. Thus, this issue will be discussed after we have resolved the allocation issue outlined above.