



Matthew G. Bevin
Governor

Charles G. Snavelly
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

James W. Gardner
Chairman

Daniel E. Logsdon Jr.
Vice Chairman

J. Roger Thomas
Commissioner

March 28, 2016

PARTIES OF RECORD

Re: Case No. 2015-00358
Application of East Kentucky Power Cooperative, Inc. for Deviation from
Obligation Resulting from Case No. 2012-00169

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. 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 Quang Nguyen, Staff Attorney, at (502) 782-2586.

Sincerely,

A handwritten signature in blue ink that reads "James W. Gardner".

James W. Gardner
Acting Executive Director


QN/ph

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Quang D. Nguyen, Staff Attorney 

DATE: March 28, 2016

RE: Case No. 2015-00358
Application of East Kentucky Power Cooperative, Inc. for Deviation from
Obligation Resulting from Case No. 2012-00169

Pursuant to the Commission Staff's February 29, 2016 Notice, an informal conference was held on March 17, 2016, at the Commission's offices in Frankfort, Kentucky. The purpose of the informal conference was to discuss the status of the continued settlement negotiations conducted by the parties. A list of the attendees is attached hereto.

At the beginning of the informal conference, representatives of East Kentucky Power Cooperative, Inc. ("EKPC") advised that the response that it had submitted on February 26, 2016, which concerned a capital credit allocation methodologies proposed by Kentucky Industrial Utility Customers, Inc. ("KIUC") at the January 29, 2016 informal conference, did not contain the information that had been sought by KIUC. EKPC's February 26, 2016 submittal contained an analysis comparing two allocation methodologies ("Option A" and "Option B"). Option A reflected an initial allocation to EKPC Rate Schedules using total EKPC billing demand, exclusive of interruptible demands, for all of 2015. Option B reflected initial allocation to EKPC Rate Schedules using total EKPC billing demand, exclusive of interruptible demand, experienced in February 2015, which was the month that EKPC experienced its system peak in 2015. EKPC indicated that subsequent to the submission on February 26, 2016, the company and KIUC engaged in discussions regarding the type of analysis that is being sought by KIUC. As a result of those discussions, EKPC performed a revised capital credit allocation analysis that included an additional methodology ("Option C"). Option C reflects a determination of EKPC Rate E allocation using total EKPC billing demand, exclusive of interruptible demand, experienced in February 2015. Under Option C, the Rate E allocation is separated into residential and non-residential portions using the actual kWh sales reported by the Members for the most recently available calendar year. Lastly, under Option C, a per customer monthly credit is determined for residential customers; a monthly credit per kWh was determined for all other customers.

EKPC then discussed its meetings with officials from the Rural Utilities Service ("RUS"). EKPC indicated that RUS was not warm to the idea of a capital credit payment proposal, but suggested that net capacity benefits received by EKPC from its participation in PJM Interconnection, LLC be used for low-income energy efficiency programs or be placed in a cushion of credit account with RUS, which would earn five percent interest, and the interest income would be used to benefit EKPC's customers. EKPC noted that funds in the cushion of credit account cannot be used for any purpose other than paying down debt from RUS or the Federal Financing Bank.

EKPC also informed that it had met with the CEOs of its Member Cooperatives. EKPC stated that the CEOs were not all supportive of the capital credit payment proposal. The reasons provided by the CEOs include being displeased with being directed to pay capital credit, each of the Member Cooperatives have differing capital credit payment methodologies, and the spectre of litigation over capital credit payments that is occurring across the country. The CEOs proposed that the net capacity benefits at issue in this case be used to reduce the outstanding balance of the Smith Unit 1 deferred asset. The AG requested a list of the capital credit lawsuits mentioned by EKPC.

EKPC noted that the option of using the net capacity benefits to reduce the Smith Unit 1 balance would be comparatively easy to implement and may not be problematic from a rate-making perspective, but that it would need to model this alternative to have a better understanding of the impact. A high level discussion of how this alternative would be implemented ensued, including implications, if any, to the previously concluded Smith Unit 1 investigation case and EKPC's 2010 base rate case. EKPC indicated that it would provide examples of several scenarios of how the surcharge mitigation alternative would work. At this time, EKPC stated that it was leaning towards filing a mechanism to flow the net capacity benefits to mitigate the Smith Unit 1 costs. EKPC informed that its Member Cooperatives want to avoid a surcharge for the recovery of the Smith 1 costs and any amounts going towards reducing those costs would be preferable. EKPC noted that it has a board meeting in early April and it will submit a term sheet with some specificity on the surcharge mitigation alternative by mid-April.

There being no further discussions, the informal conference was adjourned.

Attachments

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

=====
March 17, 2016 Informal Conference
=====

Please sign in:

NAME

REPRESENTING

RICHARD RAFF-

PSC - LEGAL

Quang Nguyen
Mike Kurtz

PSC

KIUC

David Sanford

Goss Sanford - EKPC

Larry Coate

OAG

MARK D. GOSS

Goss Sanford - EKPC

Patrick Wlowak

ETPC

Mike McMalley

EKPC

Isaac S. Scott

EKPC

Jody Cohn

KIUC

Additional Allocation Option for Capital Credit Payment
PJM Capacity Market Benefit

After filing a pair of allocation options on February 26, 2016, EKPC was notified by KIUC that neither option reflected the suggestion KIUC had offered at the January 29, 2016 informal conference. This narrative reflects EKPC's understanding of KIUC's suggestion and the results that could be expected. As was noted in the earlier narrative, 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.

Additional Option

Option C reflects the following approach:

- Determine EKPC Rate E allocation using total EKPC billing demand, exclusive of interruptible demand,¹ experienced in February 2015, the month of EKPC's system peak in 2015.
- Separate the Rate E allocation into residential and non-residential portions using the actual kWh sales reported by the Members for the most recently available calendar year (2014 data was used for this example).
- Determine a per customer monthly credit for residential customers; for all other customers determine a monthly credit per kWh.²

Allocations	
EKPC Rate E demand as percentage of total billing demand exclusive of interruptible load	91.543%
Separation of EKPC Rate E into Residential and Non-Residential Portions, based on kWh Sales	
Rate E Residential	76.186%
Rate E Non-Residential	23.814%

Allocation Example

EKPC has modeled the Option C 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

¹ EKPC believes demand associated with interruptible service should be excluded from total billing demand when performing this allocation.

² All other customers reflect customers served under EKPC's Rates B, C, G, and Special Contracts as well as the non-residential portion of EKPC's Rate E.

Redacted

annual periods were used, but we could use a levelized approach across the three calendar years with a reserve for penalties.

Allocation Option C - Example			
	2017	2018	2019
Total Payout	██████████	██████████	██████████
EKPC Rate E allocation @ 91.543%	██████████	██████████	██████████
Residential Portion of EKPC Rate E @ 76.186%	██████████	██████████	██████████
Non-Residential Portion {Total Payout less Residential Portion}	██████████	██████████	██████████

Allocation Example – Possible Monthly Bill Credits

To complete the example, a calculation of possible monthly credits for the Residential and Non-Residential groups was performed. For Residential, a monthly per customer credit is calculated based on the average number of residential customers using Member data. For Non-Residential, a monthly credit per kWh is calculated based on Member actual kWh sales data.

Allocation Option C – Example – Possible Monthly Bill Credits			
	2017	2018	2019
Residential – per customer	████	████	████
Non-Residential – per kWh	██████████	██████████	██████████

In the earlier narrative, EKPC noted the second issue is identifying a method of paying the capital credits that is fair and appropriate for these payments. The concerns and observations offered in the earlier narrative are still valid but are not repeated here.

Comparison of Allocation Options

When comparing the allocation options, please be aware of the following:

- Options A and B allocate the entire capital credit payment using EKPC billing demand. Option C determines the portion of the capital credit payment that would be allocated to EKPC’s Rate E using billing demand.
- Option A uses total EKPC billing demand for all of 2015. Options B and C use total EKPC billing demand experienced in February 2015, the month of EKPC’s system peak in 2015. All three options exclude interruptible demand from the calculations.
- All three options separate the Rate E allocation between residential and non-residential customers using Member kWh sales data.

- Options A and B determine a monthly per kW credit for EKPC Rates B, C, G, and Special Contract customers, a monthly per customer credit for Rate E Residential customers, and a monthly per kWh credit for Rate E Non-Residential customers.
- Option C determines a monthly per meter credit for Rate E Residential customers and a monthly per kWh credit for all other customers (Rate B, C, G, Special Contract, and Rate E Non-Residential).
- Since the preparation of Options A and B, minor errors in the EKPC billing data were discovered and corrected. Option C reflects the corrected billing data.

The Rate E demand allocation is as follows: Option A – 86.869%; Option B – 91.544%; Option C – 91.543%. All three options allocated 76.186% of the Rate E allocation to Residential customers. While Options B and C utilized essentially the same demand allocation factor for Rate E, the use of a per kWh credit for all Non-Residential customers in Option C results in an assignment of the capital credit payout that differs from Option B for Non-Residential customers.

Please see the following tables for comparisons between the three options.

Redacted

Comparison of Allocation Options - Example			
2017 - [REDACTED]	Option A	Option B	Option C
Rate B	[REDACTED]	[REDACTED]	[REDACTED]
Rate C	[REDACTED]	[REDACTED]	[REDACTED]
Rate G	[REDACTED]	[REDACTED]	[REDACTED]
Special Contracts	[REDACTED]	[REDACTED]	[REDACTED]
Rate E Breakdown			
Residential	[REDACTED]	[REDACTED]	[REDACTED]
Commercial & Industrial	[REDACTED]	[REDACTED]	[REDACTED]
Public Streets & Highway Lighting	[REDACTED]	[REDACTED]	[REDACTED]
Other Public Authorities	[REDACTED]	[REDACTED]	[REDACTED]
Rounding	[REDACTED]	[REDACTED]	[REDACTED]
Total Rate E	[REDACTED]	[REDACTED]	[REDACTED]
Totals	[REDACTED]	[REDACTED]	[REDACTED]

Comparison of Allocation Options - Example			
2018 - [REDACTED]	Option A	Option B	Option C
Rate B	[REDACTED]	[REDACTED]	[REDACTED]
Rate C	[REDACTED]	[REDACTED]	[REDACTED]
Rate G	[REDACTED]	[REDACTED]	[REDACTED]
Special Contracts	[REDACTED]	[REDACTED]	[REDACTED]
Rate E Breakdown			
Residential	[REDACTED]	[REDACTED]	[REDACTED]
Commercial & Industrial	[REDACTED]	[REDACTED]	[REDACTED]
Public Streets & Highway Lighting	[REDACTED]	[REDACTED]	[REDACTED]
Other Public Authorities	[REDACTED]	[REDACTED]	[REDACTED]
Rounding	[REDACTED]	[REDACTED]	[REDACTED]
Total Rate E	[REDACTED]	[REDACTED]	[REDACTED]
Totals	[REDACTED]	[REDACTED]	[REDACTED]

Comparison of Allocation Options - Example			
2019 - [REDACTED]	Option A	Option B	Option C
Rate B	[REDACTED]	[REDACTED]	[REDACTED]
Rate C	[REDACTED]	[REDACTED]	[REDACTED]
Rate G	[REDACTED]	[REDACTED]	[REDACTED]
Special Contracts	[REDACTED]	[REDACTED]	[REDACTED]
Rate E Breakdown			
Residential	[REDACTED]	[REDACTED]	[REDACTED]
Commercial & Industrial	[REDACTED]	[REDACTED]	[REDACTED]
Public Streets & Highway Lighting	[REDACTED]	[REDACTED]	[REDACTED]
Other Public Authorities	[REDACTED]	[REDACTED]	[REDACTED]
Rounding	[REDACTED]	[REDACTED]	[REDACTED]
Total Rate E	[REDACTED]	[REDACTED]	[REDACTED]
Totals	[REDACTED]	[REDACTED]	[REDACTED]

Redacted

Comparison of Allocation Options – Example – Possible Monthly Bill Credits			
2017	Option A	Option B	Option C
Rates B, C, G, and Special Contracts	████ per kW	████ per kW	████ per kWh
Rate E Residential	████ per customer	████ per customer	████ per customer
Rate E Commercial & Industrial	████ per kWh	████ per kWh	████ per kWh
Rate E Public Street & Highway Lighting	████ per kWh	████ per kWh	████ per kWh
Rate E Other Public Authorities	████ per kWh	████ per kWh	████ per kWh

Comparison of Allocation Options – Example – Possible Monthly Bill Credits			
2018	Option A	Option B	Option C
Rates B, C, G, and Special Contracts	████ per kW	████ per kW	████ per kWh
Rate E Residential	████ per customer	████ per customer	████ per customer
Rate E Commercial & Industrial	████ per kWh	████ per kWh	████ per kWh
Rate E Public Street & Highway Lighting	████ per kWh	████ per kWh	████ per kWh
Rate E Other Public Authorities	████ per kWh	████ per kWh	████ per kWh

Comparison of Allocation Options – Example – Possible Monthly Bill Credits			
2019	Option A	Option B	Option C
Rates B, C, G, and Special Contracts	████ per kW	████ per kW	████ per kWh
Rate E Residential	████ per customer	████ per customer	████ per customer
Rate E Commercial & Industrial	████ per kWh	████ per kWh	████ per kWh
Rate E Public Street & Highway Lighting	████ per kWh	████ per kWh	████ per kWh
Rate E Other Public Authorities	████ per kWh	████ per kWh	████ per kWh

*David S Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*Jennifer Black Hans
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

*Jody M Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Honorable Kurt J Boehm
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

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

*East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P. O. Box 707
Winchester, KY 40392-0707