

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF EAST KENTUCKY)	
POWER COOPERATIVE, INC. OF A)	CASE NO.
REVISION TO ITS WHOLESALE)	9582
ELECTRIC POWER TARIFF)	

O R D E R

BACKGROUND

On May 15, 1986, East Kentucky Power Cooperative, Inc., ("EKPC") filed two optional schedules to its wholesale tariff, Schedule B and Schedule C. EKPC proposed an effective date of June 5, 1986, for the schedules. The Commission suspended the effective date of the tariff revisions until November 5, 1986. During this suspension there has been one request for information by the Commission staff and a response by EKPC.

The proposed tariff revisions are applicable to industrial customers, both existing and future. According to EKPC's application, it has two purposes in making this filing. First, EKPC and its member cooperatives want to assist the Kentucky Commerce Cabinet in locating prospective industrial customers in Kentucky. Second, this proposal is part of EKPC's efforts of meeting its goal to raise its annual load factor from 45 percent to 60 percent by the early 1990s.

Subsequent to EKPC's filing, three of its member cooperatives have filed industrial tariffs based on the EKPC optional

schedules. The cooperatives that have filed tariffs are Shelby Rural Electric Cooperative Corporation, Owen County Rural Electric Cooperative Corporation and Jackson County Rural Electric Cooperative Corporation.

CONCERNS

After a review of the record to date in this case, several concerns have come to the Commission's attention. First, in EKPC's application, it indicates that if the options available under Schedule B and Schedule C are selected, it may experience a potential revenue loss from existing customers of approximately \$1 million. In order to offset this revenue loss, EKPC would need several new large power users to locate in its service territory. In response to Item 6a of the Commission's Order of June 27, 1986, EKPC estimates that over 9,000 kilowatts of additional load must be located in order to offset the revenue loss. The concern is that if this load is not located, then the loss of revenue will need to be recovered through a general rate increase for all customers.

Second, most of the potential revenue loss to EKPC occurs under Schedule B. However, Schedule B does not require a contract between the member distribution cooperative and the ultimate consumer. Thus, a distribution cooperative that qualifies for Schedule B has several options, including passing the savings to the customer or customers served at the load center, sharing the savings with all customers or keeping any savings. This issue was previously raised in the data request of June 26, 1986, Item 1a. At page 1 of the same request, the Order stated that "the

Commission has assumed that EKPC will solicit, coordinate and provide the information from the 18 member distribution cooperatives." EKPC responded that each member cooperative will deal with any savings in a manner that is most beneficial to its consumer members, including retaining the savings. EKPC further states in its response that each cooperative that opts for Schedule B will file retail rates at the Commission to implement this option. However there is no requirement in Schedule B to assure the Commission that this will in fact happen. Thus there is a potential windfall increase in net income for those cooperatives which have qualifying load centers.

Third, the long term consequences of this program are never addressed in EKPC's proposal. If EKPC is successful in attracting the additional customers and their load requirements, this could hasten the day when additional generating capacity is needed. In the case of EKPC, this means that if this program increases the need for the J. K. Smith Unit then there are additional long-run costs involved which have not been included in EKPC's analysis.

Fourth, the rate options under Schedule B and Schedule C would continue indefinitely as proposed by EKPC. However, a common characteristic of similar proposals in other states is to limit the reduced rate to some specified period, usually a few years. The Commission is concerned about attracting new customers with the promise of lowered electric rates extending indefinitely into the future.

Fifth, the primary purpose of the EKPC rate proposal is to encourage economic development. This has not traditionally been

an explicit ratemaking objective of the Commission. The philosophy of the Commission has been to develop rates based on costs. The Commission is concerned about deviating from its current objectives of implementing cost-based rates in a consistent fashion and instead approving rates with the express intention of encouraging economic development.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. A hearing to further address these concerns is appropriate.

2. To facilitate the hearing, EKPC should provide written comments in response to these concerns and that the written comments should be provided to the Commission prior to the hearing.

3. Given that these concerns also relate to the 18 member cooperatives of EKPC, they should be given notice of the hearing, made parties to the case and should file their response to these concerns either individually or collectively.

IT IS THEREFORE ORDERED that:

1. A public hearing on EKPC's proposed tariff options Schedule B and Schedule C be and hereby is scheduled for Wednesday, September 24, 1986, at 9:00 A.M., Eastern Daylight Time, in the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky.

2. EKPC shall file 12 copies of its written response to the concerns expressed herein by September 19, 1986.

3. EKPC shall have a witness available at the hearing to answer questions or further clarify the written comments.

4. EKPC shall give written notice of this hearing and a copy of this Order to each member cooperative within 5 days of receipt of this Order. EKPC shall furnish the Commission confirmation of this notice.


5. The EKPC member cooperatives shall be made parties to this case.

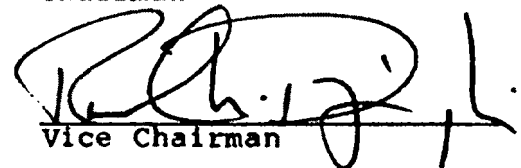
6. The EKPC member cooperatives shall, either individually or collectively, file 12 copies of their written response to the concerns expressed herein by September 19, 1986.

7. The EKPC member cooperatives, either individually or collectively, shall have a witness available at the hearing to answer questions or further clarify the written comments.

Done at Frankfort, Kentucky, this 2nd day of September, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director