COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

EAST KENTUCKY POWER COOPERATIVE, INC.'S FILING OF A PROPOSED CONTRACT WITH GALLATIN STEEL COMPANY	)	CASE NO. 94-456

O R D E R

IT IS ORDERED that East Kentucky Power Cooperative, Inc. ("East Kentucky") shall file an original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. The information requested herein relates to the Special Agreement for Electric Service ("Agreement") between East Kentucky, Owen Electric Cooperative ("Owen") and Gallatin Steel Company ("Gallatin") filed with the Commission on November 2, 1994. East Kentucky's response to this request is due no later than January 19, 1995.

1. Section 1.G of the Agreement defines "Demand" as the average KW demand occurring during any sixty-minute period beginning and ending at standard clock hours.

a. Explain why demand is averaged over such a sixty-minute period instead of any fifteen-minute period as is typical within the electric industry.

b. Provide the projected demand for Gallatin if demand:

(1) Is measured as defined in the Agreement.

(2) Were measured over a fifteen-minute period.

2. Section 5.G of the Agreement discusses substation sites and right-of-way easements and states that the detailed arrangements for these items will be covered in other documents. Have any of these other documents been finalized? If yes, provide copies. If no, when does East Kentucky expect them to be finalized?

3. Section 6.B of the Agreement describes the manner in which energy charges will be determined but does not provide estimates or projections of the amount of the charges. However, in its application in Case No. 94-336[1] East Kentucky estimated energy charges for both firm service (17 mills) and interruptible service (17.5 mills) to Gallatin. Provide evidence of how these charges were estimated and include the outputs from any production cost modeling runs that were performed to prepare the estimates. Also explain why these energy cost estimates are less than the proposed off-peak energy rate that East Kentucky has proposed in Case No. 94-336.

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[1] Case No. 94-336, Application of East Kentucky Power Cooperative, Inc to Adjust Electric Rates, Exhibit A, Schedule 18.

4. Section 6.B of the Agreement states that for interruptible energy East Kentucky will recover its out-of-pocket costs on an hour-by-hour basis, determined after the fact using "with and without" production cost modeling. Out-of-pocket costs are defined as those costs that would not have been incurred if the energy were not supplied.

a. Will this costing mechanism dictate, on an economic dispatch basis, that Gallatin will be charged higher fuel costs for interruptible energy than the system average fuel costs charged to East Kentucky's native load firm service customers?

b. How will East Kentucky treat the fuel cost for interruptible energy to Gallatin in establishing its base fuel cost and calculating its monthly fuel adjustment factor?

5. Section 6.B of the Agreement also states that the energy charge for Firm Service will be East Kentucky's system average fuel cost plus an adder to cover variable O & M costs. Will this adder cover taxes, transmission losses, emission allowances, and other appropriate expenses similar to those included in the definition of out-of-pocket costs that are to be recovered in the energy charges for Interruptible Service?

6. Section 6.C of the Agreement covers demand charges. Provide cost support, with supporting documentation and workpapers, for the proposed demand charges for East Kentucky Firm Service, East Kentucky Ten Minute Interruptible Service, and East Kentucky Ninety Minute Interruptible Service.

7. In Case No. 94-336 East Kentucky has indicated that the total investment in transmission plant to serve the Gallatin load will be $2,425,000.[2] Indicate when East Kentucky expects fully to recover its investment in the transmission plant additions. Include copies of any analyses or studies used in this evaluation.

8. Section 6.J of the Agreement calls for Gallatin to pay a monthly charge of $47,000 to cover East Kentucky's investment in facilities installed to serve Gallatin.

a. Provide documentation, including workpapers, which details the derivation of this monthly charge. This response should include, at minimum, the itemized cost of the facilities, the expected depreciable lives of the assets, any tax, insurance or return components included in the monthly charge, and a description of the documents and workpapers included in the response.

b. Does East Kentucky expect to collect $47,000 per month during the entire 10-year period? If no, explain when East Kentucky expects these payments either to end or be modified.

9. If not provided in the response to Question No. 8, provide any additional documentation, workpapers, etc. necessary to demonstrate that Gallatin will be paying for all of the fixed costs associated with the service provided by East Kentucky and Owen.

10. Section 9 of the Agreement covers the discontinuance of service but does not appear to provide for the event of termination by Gallatin before East Kentucky has recovered the cost of its investment in transmission facilities.

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[2] Id.

a. Explain why no specific provisions exist in the Agreement to cover this possibility.

b. Has East Kentucky received any written assurances from Gallatin concerning the recovery of East Kentucky's investment in transmission facilities? If yes, provide copies. If none have been provided, explain why.

c. Explain the actions East Kentucky has taken to protect itself in the event Gallatin terminates the Agreement before the investment has been recovered.

11. Section 11 of the Agreement discusses Gallatin's membership with Owen and states that, in the event of an inconsistency between Owen's rules and regulations and the Agreement provisions, the Agreement provisions will prevail.

a. Explain the reason(s) for this section of the Agreement. Does East Kentucky have the same provision in any other special contracts?

b. Identify any inconsistencies which presently exist between Owen's rules and regulations and the Agreement. For each inconsistency explain why the Agreement provisions should prevail over Owen's rules and regulations.

12. Section 24 of the Agreement states that the rates and charges for electrical service are contingent upon the execution of other agreements and securing of certain approvals.

a. Provide the current status of the following agreements and approvals:

(1) East Kentucky - Kentucky Utilities Company ("KU") agreement.

(2) East Kentucky - Louisville Gas & Electric Company agreement.

(3) Approval from the Rural Utilities Services ("RUS"), formerly the Rural Electrification Administration.

(4) Approval from the National Rural Utilities Cooperative Finance Corporation ("CFC").

b. Provide copies of the finalized East Kentucky-KU agreement and the written approvals from RUS and CFC. If these are not available by the response date, provide copies within 10 days of the finalization or receipt by East Kentucky.

13. The Agreement provides for a different level of service, interruptible, than the firm service offered in East Kentucky's standard tariffs. Therefore, although lower than East Kentucky's tariff rates, the rates for this service are not actually discounted from the tariff rates as is typical of an Economic Development Rate ("EDR"). However, part of the Gallatin load is for firm service that is priced differently than East Kentucky's standard tariff rate. Explain the basis for developing rates for Gallatin's firm service that differ from East Kentucky's tariff rates.

14. In Administrative Case No. 327[3] the Commission established guidelines to apply to EDRs. With reference to those guidelines provide the following information:

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[3] Administrative Case No. 327, An Investigation into the Implementation of Economic Development Rates by Electric and Gas Utilities, Order dated September 24, 1990. East Kentucky was an active participant in that case.

(1) An explanation of why the term of the Agreement is not for a period twice the length of a discount period, with the rates charged during the second half of the Agreement being identical to East Kentucky's tariff rates.

(2) An explanation of why the period during which Gallatin will be charged rates other than East Kentucky's tariff rates exceeds 5 years.

(3) The number of jobs and the capital investment to be created as a result of the Agreement with Gallatin.

(4) A demonstration that serving the Gallatin load during each year of the Agreement will not cause East Kentucky to fall below a reserve margin that is considered essential for system reliability.

(5) A marginal cost-of-service study which demonstrates that the revenues to be generated by serving Gallatin will exceed the marginal cost associated with providing that service.

(6) The Commission specified that an EDR should apply only to load which exceeds a minimum base level. To what extent did East Kentucky consider this in developing rates for Gallatin?

Done at Frankfort, Kentucky, this 22nd day of December, 1994.

PUBLIC SERVICE COMMISSION

Robert M. Davis

For the Commission

ATTEST:

Don Mills

Executive Director