

Goss & Samford PLLC



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October 28, 2013

Via Hand-Delivery

Mr. Jeffrey Derouen
Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED
OCT 28 2013
PUBLIC SERVICE
COMMISSION

Re: In the Matter of: Petition and Complaint of Grayson RECC for an Order Authorizing Purchase of Electric Power at the Rate of Six Cents Per Kilowatts of Power vs. a Rate in Excess of Seven Cents Per Killowatt Hour Purchased From East Kentucky Power Cooperative Under a Wholesale Power Contract as Amended Between Grayson RECC and East Kentucky Power Cooperative, Inc., PSC Case No. 2012-00503

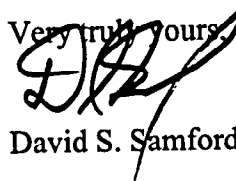
Dear Mr. Derouen:

Enclosed please find for filing with the Commission in the above-referenced case an original and ten (10) copies each of the following:

1. Farmers Rural Electric Cooperative Corporation's Responses to Grayson Rural Electric Cooperative Corporation's Document Requests to All Intervening Distribution Cooperative Respondents;
2. Farmers Rural Electric Cooperative Corporation's Answers to Grayson Rural Electric Cooperative Corporation's Interrogatories to All Intervening Distribution Cooperative Respondents; and,
3. East Kentucky Power Cooperative, Inc.'s Answers to Grayson Rural Electric Cooperative Corporation's Interrogatories to All Intervening Distribution Cooperative Respondents.

Please return file-stamped copies to me. Do not hesitate to contact me if you have any questions.

Very truly yours,



David S. Samford

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

OCT 28 2013

PUBLIC SERVICE
COMMISSION

In the Matter of:

PETITION AND COMPLAINT OF GRAYSON)
RURAL ELECTRIC COOPERATIVE)
CORPORATION FOR AN ORDER)
AUTHORIZING PURCHASE OF ELECTRIC)
POWER AT THE RATE OF SIX CENTS PER)
KILOWATTS OF POWER VS A RATE IN)
EXCESS OF SEVEN CENTS PER KILOWATT)
HOUR PURCHASED FROM EAST KENTUCKY)
POWER COOPERATIVE UNDER A)
WHOLESALE POWER CONTRACT AS)
AMENDED BETWEEN GRAYSON RURAL)
ELECTRIC COOPERATIVE CORPORATION)
AND EAST KENTUCKY POWER COOPERATIVE INC.)

CASE NO. 2012-00503

**EAST KENTUCKY POWER COOPERATIVE, INC.'S
ANSWERS TO GRAYSON RURAL ELECTRIC
COOPERATIVE CORPORATION'S INTERROGATORIES**

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by counsel, and hereby responds as follows to the Interrogatories propounded by the Petitioner, Grayson Rural Electric Cooperative Corporation ("Grayson"):

INTERROGATORY NO. 1: Please set forth the name, address and title of the person awaiting these Interrogatories.

ANSWER: Mr. Don Mosier, Chief Operating Officer and Executive Vice President, provided the responses to Interrogatories 1, 4-8 and 14-16. Mr. David Crews, Senior Vice President of Power Supply, provided the responses to Interrogatories 1-3 and 10-13. Mr. Isaac Scott, Pricing Manager, provided the response to Interrogatory 1 and 9. Each of these gentlemen

have the business address of 4775 Lexington Road, P.O. Box 707, Winchester, Kentucky 40392-0707.

INTERROGATORY NO. 2: Please set forth the factual basis that East Kentucky Power Cooperative believes must be set forth, followed, and utilized by any distribution cooperative to purchase power up to the extent of 15% of its load from a source other than East Kentucky Power.

ANSWER: This issue was the subject of a letter from David Crews to Carol Ann Fraley, dated October, 2, 2013 and filed in this proceeding as Exhibit 2 to EKPC's Objection to Petitioner's Notice of Filing of Additional Proof of Notice, which was filed on October 4, 2013. This letter is incorporated by reference as if set forth herein.

INTERROGATORY NO. 3: Please state whether East Kentucky Power Cooperative has received notice of a desire to purchase power from a source other than East Kentucky Power Cooperative by any distribution cooperative within the last 18 months, and if so, set forth the extent of the power sought to be purchased by each distribution cooperative and whether same is less than 15% of its coincident peak for the preceding 36 months as defined in Amendment 3 to the Wholesale Power Contract of 1964 and whether same is less than 5% of the production of East Kentucky Power.

ANSWER: The attached spreadsheet shows all notices received by EKPC since the adoption of Amendment 3. In addition, on September 24, 2013, EKPC filed an Objection to Grayson's Notice of Amendment. Exhibit 7 of the Objection included a recent calculation of 5% and the 15% limit for each member. The spreadsheet attached to Exhibit 7 of the Objection is incorporated herein by reference. All notices with the exception of certain purported notices from Grayson, have not exceeded 15% of the rolling average of its coincident peak demands the

singular calendar month with the highest peak demand occurring during each of the 3 twelve month periods immediately preceding the notice by that member.

INTERROGATORY NO. 4: Please state whether you believe that the board policy of East Kentucky Power No. 305, is an authorized modification of the provisions of Amendment 3 of the Wholesale Power Contract attached to the Petition herein, and if so, please set forth the factual basis for why you believe said policy modifies the terms of Amendment 3. If not, please state what you believe East Kentucky Power Cooperative's Board Policy 305 does.

ANSWER: EKPC objects to this question to the extent that calls for any legal conclusions. Without waiving said objection, Board Policy 305 does not modify or conflict with any of the Amendment 3 covenants. Amendment 3 limits the load that can be removed from the WPC to 5% of the rolling average of EKPC's coincident peak demand for the single calendar month with the highest peak demand occurring during each of the 3 twelve month periods immediately preceding any election by the member. Amendment 3 further states that no Member may shall receive more than 15% of the rolling average of its coincident peak demand for the single calendar month with the highest peak demand occurring during each of the 3 twelve month periods immediately preceding any election by the member. The language set a limit to but does not guarantee each member 15%. Amendment 3 contemplated that there would need to be an allocation process and as such did not state that any Member may remove 15% of load from EKPC's system. As stated in Policy 305 "The objective of this Board Policy is to provide a reasonable mechanism to allocate the 5% Cap among the member systems so that those member systems with specific, identifiable projects that would be facilitated by the use of the 15% Option can proceed in a timely manner."

INTERROGATORY NO. 5: If your answer to the preceding Interrogatory is in the affirmative, then please set forth the factual basis for your belief that a board policy can modify a contract entered into between East Kentucky Power and its member owners.

ANSWER: See Response to Interrogatory No. 4.

INTERROGATORY NO. 6: Please state whether East Kentucky Power Cooperative has any agreement with any distribution cooperative to pay the legal costs of any distribution cooperative desiring legal representation and receiving legal representation in the within proceeding and if so, please set forth the terms of said contract and whether there were any disclosures as part of the agreement.

ANSWER: EKPC objects to this interrogatory on the basis that it seeks privileged information. Moreover, the interrogatory in no way relates to any of the issues of the case and is merely an attempt to harass and annoy EKPC.

INTERROGATORY NO. 7: Please set forth the amount of money paid by East Kentucky Power Cooperative to its attorneys for the legal representation that it has provided in the within proceeding, not only for East Kentucky Power Cooperative, which is partly owned by Grayson Rural Electric Cooperative, but also please state any legal costs or attorney's fees East Kentucky Power Cooperative has paid or assumed responsibility for with regard to the legal representation of any distribution cooperative in the within action. For purposes of this Interrogatory "paid" shall mean any payments of attorney fees or costs in the within action that East Kentucky Power Cooperative could be held liable for in an attempt to collect a debt, has paid, will pay, or agree to indemnify any distribution co-op for.

ANSWER: EKPC objects to this interrogatory on the basis that it seeks privileged information. Moreover, the interrogatory in no way relates to any of the issues of the case and is

merely an attempt to harass and annoy EKPC. Without waiving said objection or any privilege, the legal expenses incurred by EKPC have been caused solely by the actions of Grayson, which has initiated and unnecessarily prolonged this proceeding, without justification.

INTERROGATORY NO. 8: Please state whether East Kentucky Power Cooperative, if it has paid the fees for legal representation of any distribution cooperative in the within proceeding, agrees to pay Grayson Rural Electric Cooperative Corporation for its legal fees in the within proceeding.

ANSWER: EKPC objects to this interrogatory on the basis that it seeks privileged information. Moreover, the interrogatory in no way relates to any of the issues of the case and is merely an attempt to harass and annoy EKPC.

INTERROGATORY NO. 9: Please state what impact, if any there would be, upon the financial picture of East Kentucky Power Cooperative if Grayson Rural Electric Cooperative Corporation is allowed to purchase 9.3 megawatts of power to serve its load in its defined territory from a source other than East Kentucky Power.

ANSWER: Based upon an analysis of the invoices East Kentucky Power issued to Grayson Rural Electric Cooperative Corporation (“RECC”) during the most recent 12 month period (October 2012 through September 2013), a reduction in load of 9.3 megawatts would result in an annual reduction in total revenues of \$3,572,707. This total reduction is composed of base revenues (demand and energy charges) of \$3,068,053; fuel adjustment clause revenues of \$6,571; and environmental surcharge revenues of \$498,083.

All other things being equal, the impact on East Kentucky Power’s financial picture as a result of this revenue reduction would be lower year-end total margins for East Kentucky Power,

which in turn would result in smaller capital credit allocations to all Members, including Grayson RECC.

It must be remembered that East Kentucky Power's rates were designed to recover its revenue requirements as presented in its last base rate case. The reduction of kW demand and the corresponding reduction in kWh energy sales make it more difficult for East Kentucky Power to consistently recover its revenue requirement from its Members. Even though East Kentucky Power participates in the PJM market, this participation does not eliminate the need for East Kentucky Power to recover its fixed and variable costs. East Kentucky Power can only "make up" the reduction in base revenues through the filing of a base rate case application with the Kentucky Public Service Commission. The reduction in the fuel adjustment clause revenues and environmental surcharge revenues would be made up through the operation of those mechanisms.

The 9.3 megawatt reduction in Grayson RECC's load will have two immediate impacts on the Members of East Kentucky Power, including Grayson RECC. The 9.3 megawatt reduction in load will result in a corresponding reduction in kWh energy sales. This lowered level of energy sales will in turn have an impact on the monthly fuel adjustment clause factor calculations. Based on the 12-month analysis of Grayson RECC's bills, East Kentucky Power has determined the impact could be a reduction in kWh energy sales of 3,993,653 kWh. This would translate into \$0.00010 per kWh or a \$0.10 mills per kWh upward adjustment in the monthly fuel adjustment clause factor East Kentucky Power bills its Members.

The 9.3 megawatt reduction in load will also impact the monthly environmental surcharge factor East Kentucky Power applies to Members' bills. Based on the 12-month analysis of Grayson RECC's bills, the average member system revenues excluding the

environmental surcharge would be reduced by \$3,074,624 (base revenues plus fuel adjustment clause revenues). Reflecting this reduction in revenues through the environmental surcharge mechanism would increase the monthly environmental surcharge factor by 7 hundredths of a percent.

INTERROGATORY NO. 10: Please state whether there is any request or combination of requests for the purchase of power by all or any of the distribution cooperatives in the aggregate, that are owners of East Kentucky Power Cooperative, exceeding 5% of the production of East Kentucky Power.

ANSWER: See Response to Interrogatory No. 3.

INTERROGATORY NO. 11: Please set forth the method and manner of the distribution of power through the electrical grid for the amount of power utilized by any of the distribution cooperatives from a source other than East Kentucky Power, as well as what conduct is undertaken by East Kentucky Power to accomplish same.

ANSWER: EKPC objects to this question to the extent that it is vague. Without waiving said objection, delivery of power across the transmission system is governed by the Federal Energy Regulatory Commission (FERC). While EKPC is not a FERC jurisdictional entity, EKPC voluntarily complies with FERC regulations. As part of compliance with FERC rules, EKPC files an Open Access Transmission Tariff (OATT) with FERC. The FERC OATT process ensures fair access to the transmission system. Prior to joining PJM, EKPC filed an OATT with FERC and use of the EKPC transmission system by EKPC and third parties was in accordance with the OATT filed at FERC. When EKPC joined PJM, EKPC turned over functional control of its transmission system and the administration of EKPC's OATT to PJM. EKPC purchases Network Integrated Transmission Service (NITS) from PJM for the service of

its load and adheres with the PJM market rules. Any member removing load from the Wholesale Power Agreement and serving that load with a power supply delivered by the transmission system would purchase NITS from PJM and be subject the PJM market rules. EKPC reserves the right to supplement this answer should the nature of Grayson's question become more clear.

INTERROGATORY NO. 12: Please provide the name, address and title of each person authorized to give testimony to support the answer to the proceeding Interrogatory.

ANSWER: David Crews. See also the response to Interrogatory No. 1.

INTERROGATORY NO. 13: Please state whether East Kentucky Power Cooperative received notice from Grayson Rural Electric in June 2012, August 2012, July 2013, and in September 2013 of the intent of Grayson Rural Electric Cooperative Corporation to purchase power from a source other than East Kentucky and if so, please provide copies of all documents evidencing same.

ANSWER: EKPC received five pieces of correspondence from Grayson's President or Grayson's counsel purporting to provide "notice" of an election under Amendment 3, all of which have been filed in the record of this proceeding. EKPC disputes that such correspondence satisfied the requirements of Amendment 3. This issue was the subject of a letter from David Crews to Carol Ann Fraley, dated October, 2, 2013 and filed in this proceeding as Exhibit 2 to EKPC's Objection to Petitioner's Notice of Filing of Additional Proof of Notice, which was filed on October 4, 2013. This letter is incorporated by reference as if set forth herein.

INTERROGATORY NO. 14: Please state whether there is anything of value that East Kentucky Power through its Board Executive Committee, full board authority, or any of its upper level management that has been promised to any distribution cooperative in exchange for allowance of a concession to any distribution cooperative for any disparity in rates to be charged

for wholesale power within the last 18 months. If so, please set forth the terms and conditions of said agreement or tacit understanding.

ANSWER: No value or consideration has been provided or promised to any distribution cooperative owner of EKPC in the preceding 18 months.

INTERROGATORY NO. 15: Please state the name, address and title of each person which East Kentucky Power Cooperative intends to call at the Final Hearing in this action setting forth the factual basis upon which each person would give testimony.

ANSWER: EKPC has not yet made a determination as which persons it may call at any hearing in this matter.

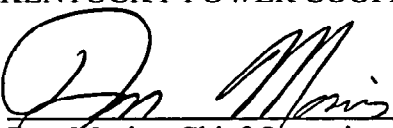
INTERROGATORY NO. 16: Please set forth the name, address, title, educational background and field of expertise of any expert witness which East Kentucky Power Cooperative intends to call at the Final Hearing in this action, including the substance of the facts and opinions to which each expert is expected to testify, as well as a summary of their testimony and the factual basis upon which any opinion is given.

ANSWER: EKPC has not yet made a determination as which experts it may call at any hearing in this matter.

VERIFICATION

By signing below, the individual answering these Interrogatories, on behalf of East Kentucky Power Cooperative, Inc., hereby certifies that the foregoing responses are true and correct to the best of his knowledge and belief.

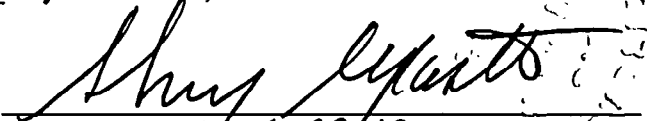
EAST KENTUCKY POWER COOPERATIVE, INC.

By: 

Don Mosier, Chief Operating Officer and
Executive Vice President

COMMONWEALTH OF KENTUCKY)
COUNTY OF CLARK)

Acknowledged, subscribed and sworn to before me by Don Mosier on behalf of East Kentucky Power Cooperative, Inc., this 25th day of October, 2013.

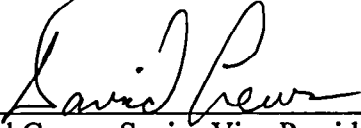

Notary Public, # 429262

My Commission Expires: 10.28.14

VERIFICATION


By signing below, the individual answering these Interrogatories, on behalf of East Kentucky Power Cooperative, Inc., hereby certifies that the foregoing responses are true and correct to the best of his knowledge and belief.

EAST KENTUCKY POWER COOPERATIVE, INC.

By: 
David Crews, Senior Vice President of Power Supply

COMMONWEALTH OF KENTUCKY)
COUNTY OF CLARK)


Acknowledged, subscribed and sworn to before me by David Crews on behalf of East Kentucky Power Cooperative, Inc., this 28th day of October, 2013.


Notary Public, # 409668
My Commission Expires: 1/27/14

VERIFICATION

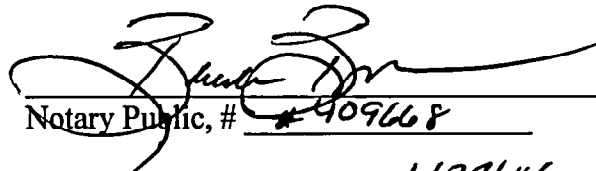
By signing below, the individual answering these Interrogatories, on behalf of East Kentucky Power Cooperative, Inc., hereby certifies that the foregoing responses are true and correct to the best of his knowledge and belief.

EAST KENTUCKY POWER COOPERATIVE, INC.

By: 
Isaac Scott, Manager of Pricing

COMMONWEALTH OF KENTUCKY)
COUNTY OF CLARK)

Acknowledged, subscribed and sworn to before me by Isaac Scott on behalf of East Kentucky Power Cooperative, Inc., this 25 day of October, 2013.


Notary Public, # 409668
My Commission Expires: 1/27/14

For the Objections,



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EKPC's Answers to Grayson's Interrogatories (PSC case) - 131004.docx

Coop Amendment 3 Project Status
Cooperative

	Project	Notice of Intent Date	Status	MW	Technology	Interconnection Point
Jackson Energy	Wellhead McKee	Notice Date (?)	Operational 2011	0.375	NG Engine/Generator	Distribution Feeder from McKee Substation
Jackson Energy	Wellhead Campground	October 11, 2012	Withdrawn August 7, 2013	1.0	NG Engine/Generator	Distribution Feeder from Campground Substation
Jackson Energy	Wellhead Fall Rock	March 1, 2012	Withdrawn August 7, 2013	1.0	NG Engine/Generator	Fall Rock Substation
Jackson Energy	NANR Invine Landfill	March 15, 2012	Operational October 2013	1.6 (Future Increase to 3.2)	Landfill Gas Engine/Generator	Distribution Feeder from Rice Substation
Farmers RECC	OMU PPA	Notice Date (?)	Withdrawn Date (?)	40 (?)	PPA	PPA
Farmers RECC	Federal Mogul Emergency Generators	May 2, 2013	Installed 2005/Operational	3.6 (2 X 1.8)	Diesel Engine/Generator	Parkway Substation
Grayson RECC	Magnum Drilling	May 2, 2013	Proposed COD 2015	0.939	Landfill Gas Engine/Generator	Distribution Feeder from West Glasgow Substation
Grayson RECC	Magnum Drilling	June 22, 2012	Amended August 9, 2012	10.7	NG Engine/Generator	Staggs Switching Station (69 KV Section)
Grayson RECC	Magnum Drilling	August 9, 2012	Withdrawn Date (?)	5.0	NG Engine/Generator	Staggs Switching Station (69 KV Section)
Grayson RECC	Magnum Drilling	January 18, 2013	Withdrawn Date (?)	4.4	NG Engine/Generator	Staggs Switching Station (69 KV Section)
Salt River Electric Cooperative Corporation	Duke PPA	Notice Date (?)	Status (?)	10.0	PPA	PPA
Owen Electric	Lock 7	November 29, 2004 - July 17, 2013	PJM B-T-M Designation	2.0	Hydro/Turbine	KU Transmission
Owen Electric	Nuffranc	October 29, 2010	Withdrawn Date (?)	1.0	Photovoltaic	Distribution Feeder from Bromley Substation
Owen Electric	Nuffranc	February 18, 2011	Withdrawn December 14, 2011	1.0	Photovoltaic	Distribution Feeder from Bavarian Substation