

Goss ■ Samford PLLC



Mark David Goss
mdgoss@gosssamfordlaw.com
(859) 368-7740

December 18, 2014

RECEIVED

DEC 18 2014

PUBLIC SERVICE
COMMISSION

Via Hand-Delivery

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

Re: In the Matter of: An Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for Construction of an Ash Landfill at J. K. Smith Station to Receive Impounded Ash from William C. Dale Station, and for Approval of a Compliance Plan Amendment for Environmental Surcharge Recovery
PSC Case No. 2014-00252

Dear Mr. Derouen:

Enclosed please find for filing with the Commission in the above-referenced case an original and ten (10) copies of East Kentucky Power Cooperative, Inc.'s Motion for Leave to File Supplemental Direct Testimony regarding the above-styled matter. Please return a file-stamped copy to me.

Do not hesitate to contact me if you have any questions.

Very truly yours,

Mark David Goss

Enclosures

M:\Clients\4000 - East Kentucky Power\1450 - Dale Ash Landfill
CPCN\Correspondence\Ltr. to Jeff Derouen - 141218

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

DEC 18 2014

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN APPLICATION OF EAST KENTUCKY)
POWER COOPERATIVE, INC. FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY FOR CONSTRUCTION OF AN)
ASH LANDFILL AT J. K. SMITH STATION TO)
RECEIVE IMPOUNDED ASH FROM WILLIAM)
C. DALE STATION, AND FOR APPROVAL OF A)
COMPLIANCE PLAN AMENDMENT FOR)
ENVIRONMENTAL SURCHARGE RECOVERY)

CASE NO.
2014-00252

MOTION FOR LEAVE TO FILE SUPPLEMENTAL DIRECT TESTIMONY

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by and through counsel, and for its Motion for Leave to File Supplemental Direct Testimony in the above-referenced matter, hereby states as follows:

1. On or about September 8, 2014, EKPC filed its Application in this matter. EKPC's Application requests that the Commission issue a Certificate of Public Convenience and Necessity for the construction of a coal ash landfill at EKPC's J. K. Smith Station to receive coal ash removed and transported from its William C. Dale Station ("Dale" or "Dale Station") (collectively, the "Project"), and for approval of an Environmental Compliance Plan amendment for purposes of recovering the costs of the Project through EKPC's Environmental Surcharge.

2. In conjunction with and in support of its Application, EKPC filed, *inter alia*, the Direct Testimony of Don Mosier. Mr. Mosier serves as Executive Vice President and Chief Operating Officer of EKPC. Within his Direct Testimony, Mr. Mosier discusses a number of items, including the decision made by EKPC to idle Dale Station Units 3 and 4 effective in April

of 2015 as a result of the U.S. Environmental Protection Agency's ("EPA") Mercury and Air Toxics Standards ("MATS") rule. Specifically, Mr. Mosier testifies as follows:

Beginning in April 2015, EKPC plans to condition Dale Units 3 and 4 for indefinite storage. Should market, regulatory or other conditions change at some point in the future to allow Dale Units 3 and 4 to operate economically again, the units may be available for retrofit or conversion, subject to regulatory or other approvals.¹

3. Since the filing of its Application, EKPC has held numerous, extensive discussions with the regional transmission organization of which it is a member, namely PJM Interconnection, LLC ("PJM"). During these discussions, PJM has expressed concern regarding near-term generation capacity and the adequacy of available resources to maintain the reliability of the high voltage electricity grid that PJM operates. PJM's most pressing concern relates to its 2015/2016 Delivery Year, during which it projects a significant decrease in the amount of available generation due to retirements associated with MATS and/or general economic conditions.

4. In an effort to address the anticipated decline in available generation resources, PJM has requested that EKPC alter its plan to place Dale Station Units 3 and 4 in indefinite storage as of April 2015. In particular, PJM has requested that EKPC seek from the Kentucky Department of Air Quality ("DAQ") a one-year extension of the deadline for compliance with MATS with respect to Dale Station Units 3 and 4. PJM believes that having Dale Station Units 3 and 4 available during the 2015/2016 Delivery Year, and specifically during the winter of 2015/2016, will help ensure resource adequacy and promote reliable operations.

5. After consultation with PJM, and in light of its own analysis, EKPC has decided that it is willing to assist PJM and thus seek from the DAQ a one-year extension of the deadline

¹ See Direct Testimony of Don Mosier, Exhibit 7 to Application, at p. 4, lines 16-20 (filed September 8, 2014).

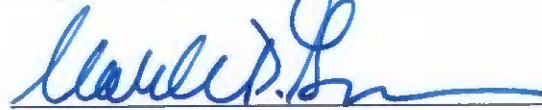
for MATS compliance with respect to Dale Station Units 3 and 4. This action, if successful, will enhance the reliability of the electric grid operated by PJM with little to no financial risk borne by EKPC. Additionally, having Dale Station Units 3 and 4 operational through the 2015/2016 Delivery Year will allow them to remain available to collect revenues from PJM's capacity market during that timeframe.

6. So that the record of this case may accurately reflect the developments herein discussed, EKPC requests that it be permitted to file the sworn Supplemental Direct Testimony of Mr. Mosier, the same being attached hereto as Exhibit A. Mr. Mosier's Supplemental Direct Testimony discusses EKPC's decision to seek an extended operational life for Dale Units 3 and 4, and specifically addresses how the Project may be affected should the requested extension be granted. Importantly, and as elucidated in Mr. Mosier's Supplemental Direct Testimony, EKPC believes that any impact on the Project would be minimal. For this reason, EKPC considers the present filing primarily informational and does not believe that the Commission's consideration of this matter should be altered in any meaningful way.

WHEREFORE, on the basis of the foregoing, EKPC respectfully requests that the Commission enter an Order permitting the attached Supplemental Direct Testimony to be filed in the record of this case.

Done this 18th day of December, 2014.

Respectfully submitted,



Mark David Goss
David S. Samford
M. Evan Buckley
GOSS SAMFORD, PLLC
2365 Harrodsburg Road, Suite B325
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 true and correct copy of the foregoing was deposited in the custody and care of the U.S. Mail, postage prepaid, on this the 18th day of December, 2014, addressed to the following:

Gregory T. Dutton
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

W. Jeffrey Scott
P.O. Box 608
311 West Main Street
Grayson, KY 41143



Counsel for East Kentucky Power Cooperative, Inc.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|-------------------|
| AN APPLICATION OF EAST KENTUCKY |) | |
| POWER COOPERATIVE, INC. FOR A |) | |
| CERTIFICATE OF PUBLIC CONVENIENCE |) | |
| AND NECESSITY FOR CONSTRUCTION OF AN |) | |
| ASH LANDFILL AT J. K. SMITH STATION TO |) | CASE NO. |
| RECEIVE IMPOUNDED ASH FROM WILLIAM |) | 2014-00252 |
| C. DALE STATION, AND FOR APPROVAL OF A |) | |
| COMPLIANCE PLAN AMENDMENT FOR |) | |
| ENVIRONMENTAL SURCHARGE RECOVERY |) | |

**SUPPLEMENTAL DIRECT TESTIMONY OF DON MOSIER
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.**

Filed: December 18, 2014



1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
2 OCCUPATION.

3 A. My name is Don Mosier and my business address is East Kentucky Power
4 Cooperative, Inc. ("EKPC"), 4775 Lexington Road, Winchester, Kentucky 40391.
5 I am Executive Vice President and Chief Operating Officer of EKPC.

6 Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN THIS
7 PROCEEDING?

8 A. Yes. My Direct Testimony is attached as Exhibit 7 to the Application filed in this
9 matter on or about September 8, 2014.

10 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

11 A.. The purpose of my supplemental testimony is to describe certain developments
12 that have occurred since the commencement of this case with respect to the
13 continued operation of EKPC's William C. Dale Station ("Dale" or "Dale
14 Station"). I will discuss the fact that PJM Interconnection, LLC ("PJM"), has
15 requested that EKPC seek from the Kentucky Division of Air Quality ("DAQ") a
16 one-year extension of the deadline for compliance with the Mercury and Air
17 Toxics Standards ("MATS") rule with respect to Dale Station Units 3 and 4, as
18 well as EKPC's decision to pursue that course of action. Finally, I will describe
19 in detail how EKPC's plan to remove coal ash from Dale Station and transport
20 and dispose of it at a newly-constructed Special Waste Landfill at the J. K. Smith
21 Station ("Smith Station") (collectively, the "Project") would be affected, should
22 the requested extension be obtained.

1 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR SUPPLEMENTAL**
2 **TESTIMONY?**

3 A. Yes. I am sponsoring the following exhibits, which I ask to be incorporated into
4 my supplemental testimony by reference:

- 5 • Exhibit DM-1, a letter dated December 16, 2014, that I sent on EKPC's behalf
6 to the DAQ requesting a one-year extension of the compliance date for MATS
7 with respect to Dale Station Units 3 and 4; and
- 8 • Exhibit DM-2, a letter dated December 16, 2014, sent by PJM to the DAQ
9 supporting EKPC's request for a one-year extension of the compliance date
10 for MATS with respect to Dale Station Units 3 and 4.

11 **Q. PLEASE DESCRIBE THE GENERATING UNITS THAT ARE LOCATED**
12 **AT DALE STATION.**

13 A. EKPC's Dale Station is home to four electric baseload generating units comprised
14 of pulverized coal-fired boilers with steam turbine generators. Units 1 and 2, each
15 rated at 25 Megawatts ("MW"), were commissioned in 1954 and comprised the
16 first power plant facility constructed by EKPC. Dale Station Units 3 and 4, each
17 rated at 75 MW, were commissioned in 1957 and 1960, respectively.

18 **Q. WHAT IS THE CURRENT OPERATING STATUS OF DALE UNITS 1**
19 **AND 2?**

20 A. In April of 2014, EKPC made the decision to close Dale Station Units 1 and 2 and
21 begin exploring the marketing of the assets. Nothing has changed with respect to
22 the operational status of Dale Station Units 1 and 2, and those assets are not at
23 issue in this supplemental testimony.

1 Q. WHAT IS THE CURRENT OPERATING STATUS OF DALE UNITS 3
2 AND 4?

3 A. At this time, Dale Station Units 3 and 4 remain available for economic dispatch in
4 PJM. However, in order for these generating units to remain operational after
5 April 16, 2015, they must be in compliance with MATS. Alternatively, EKPC
6 must seek and obtain an extension of the deadline for MATS compliance from the
7 DAQ.

8 Q. AT THE COMMENCEMENT OF THIS CASE, DID EKPC INTEND THAT
9 DALE UNITS 3 AND 4 BE AVAILABLE TO OPERATE AFTER APRIL
10 16, 2015?

11 A. No. When EKPC filed its Application in this matter, it planned to condition Dale
12 Units 3 and 4 for indefinite storage beginning in April 2015. At that time, EKPC
13 did not intend to seek an extension of the deadline for MATS compliance from
14 the DAQ for Dale Units 3 and 4, and it did not intend to make the investments
15 necessary to render Dale Units 3 and 4 MATS compliant.

16 Q. AT THIS TIME, DOES EKPC INTEND THAT DALE UNITS 3 AND 4 BE
17 AVAILABLE TO OPERATE AFTER APRIL 16, 2015?

18 A. Yes, subject to required regulatory approvals. EKPC is seeking a one-year
19 extension of the deadline for MATS compliance for Dale Units 3 and 4 from the
20 DAQ.

21 Q. WHY HAS EKPC DECIDED TO SEEK THE SUBJECT EXTENSION?

22 A. EKPC's decision to seek the subject extension is the direct result of discussions
23 held by and between the cooperative and PJM. During these discussions, PJM

1 has expressed concern regarding near-term generation capacity and the adequacy
2 of available resources to maintain the reliability of the high voltage electricity grid
3 that PJM operates. PJM's most pressing concern relates to its 2015/2016
4 Delivery Year, during which it projects a significant decrease in the amount of
5 available generation due to retirements associated with MATS and/or general
6 economic conditions. In an effort to address the anticipated decline in available
7 generation resources, PJM has requested that EKPC seek the subject extension.
8 PJM believes that having Dale Station Units 3 and 4 available during the
9 2015/2016 Delivery Year, and specifically during the winter of 2015/2016, will
10 help ensure resource adequacy and promote reliable operations. In addition to the
11 promotion of reliability, having Dale Station Units 3 and 4 operational through
12 the 2015/2016 Delivery Year, will allow them to remain available to collect
13 revenues from PJM's capacity market during that timeframe. In light of the
14 minimal risk associated with the continued operational availability of Dale Units
15 3 and 4 through April 16, 2016, EKPC has concluded that it is advantageous to
16 both it and its Members to seek the subject extension. Attached hereto as Exhibit
17 DM-1 is a letter I sent on EKPC's behalf to the DAQ requesting the subject
18 extension; attached hereto as Exhibit DM-2 is a letter PJM sent to the DAQ
19 supporting the subject extension. Both of these letters provide relevant
20 background and underscore the need for and propriety of the subject extension.

21 **Q. WILL EKPC FACE SIGNIFICANT FINANCIAL EXPOSURE IF THE**
22 **SUBJECT EXTENSION IS GRANTED?**

1 A. No. Having Dale Units 3 and 4 available to serve load means that EKPC will
2 receive capacity revenues even if the units are not dispatched by PJM. In the
3 event that Dale Unit 3 or 4 is dispatched by PJM, it will mean that the cost of
4 energy in PJM is high enough to make the units' operation economic. The
5 capacity revenues should more than offset any incremental variable expense in
6 maintaining the units' availability. Thus, EKPC will be able to maximize the
7 value of existing assets at little additional cost. Any financial exposure is
8 therefore expected to be very minimal.

9 **Q. ASSUMING THE SUBJECT EXTENSION IS OBTAINED, ARE DALE**
10 **UNITS 3 AND 4 OPERATIONALLY PREPARED TO RUN BETWEEN**
11 **APRIL 17, 2015, AND APRIL 16, 2016?**

12 A. Yes. As stated, Dale Units 3 and 4 are presently available for economic dispatch
13 in PJM, and EKPC's maintenance practices with respect to Dale Units 3 and 4
14 have been such that the operational integrity of those units remains at an
15 acceptable level. Additionally, EKPC has examined its options for fuel supply
16 should Dale Units 3 and 4 be called upon to operate and does not believe that
17 aspect of operations will be problematic. Finally, EKPC has a capable and
18 sufficient workforce readily available to staff Dale Station should the need arise.

19 **Q. OTHER THAN THE SUBJECT EXTENSION, MUST EKPC OBTAIN THE**
20 **APPROVAL OF ANY OTHER GOVERNMENTAL AUTHORITY FOR**
21 **DALE UNITS 3 AND 4 TO BE AVAILABLE TO OPERATE BETWEEN**
22 **APRIL 17, 2015, AND APRIL 16, 2016?**

23 A. No.

1 **Q. ASSUMING THE SUBJECT EXTENSION IS OBTAINED, DOES EKPC**
2 **ANTICIPATE THAT A SUBSTANTIAL VOLUME OF COAL ASH WILL**
3 **BE PRODUCED BY DALE UNITS 3 AND 4 BETWEEN APRIL 17, 2015,**
4 **AND APRIL 16, 2016?**

5 A. No. Due to the costs of operating Dale Units 3 and 4, EKPC does not anticipate
6 that PJM will actually dispatch the units a significant amount during the pertinent
7 timeframe. Even if Dale Units 3 and 4 are dispatched to a greater extent than
8 projected, however, the expected incremental increase in coal ash produced is
9 minimal.

10 **Q. HOW DOES EKPC INTEND TO DISPOSE OF ANY COAL ASH THAT IS**
11 **PRODUCED AS A RESULT OF PJM'S DISPATCH OF DALE UNITS 3**
12 **AND 4 DURING THE RELEVANT TIMEFRAME?**

13 A. If coal ash is produced by Dale Units 3 and 4 during the one additional year of
14 availability in PJM, EKPC intends to deposit it in one of Dale Station's current
15 coal ash impoundments, specifically Ash Pond 4. Ash Pond 4 has sufficient
16 capacity to accept significantly more coal ash than is projected to be produced by
17 Dale Units 3 and 4 during the relevant timeframe. Following completion of the
18 proposed Special Waste Landfill at Smith Station, the coal ash in Ash Pond 4
19 (including any coal ash that may have been temporarily deposited there as a result
20 of the operation of Dale Units 3 and 4 during the relevant timeframe) will be
21 removed and transported to the new Smith Special Waste Landfill as outlined in
22 the Application. The capacity of the proposed Smith Special Waste Landfill is

1 sufficient to accept any additional coal ash that may be produced by Dale Units 3
2 and 4 during the relevant timeframe.

3 **Q. ASSUMING THE SUBJECT EXTENSION IS OBTAINED, WILL THE**
4 **ESTIMATED TIMELINE OF THE PROJECT BE SIGNIFICANTLY**
5 **IMPACTED?**

6 A. No, although the sequence of events that comprise the Project will necessarily
7 reflect the continued utilization of Ash Pond 4 as a working ash pond. It should
8 first be noted that the estimated timeline of the Project contemplates that the first
9 “general construction season” of Smith Special Waste Landfill will run from
10 April of 2015 to November of 2015. During this time, construction of the Smith
11 Special Waste Landfill will require some 60,000-100,000 cubic yards of coal ash
12 from Dale Station for structural fill and cover material. During the winter months
13 of 2015/2016 – notably, when Dale Units 3 and 4 are most likely to be dispatched
14 by PJM, if at all – construction activity related to the Project effectively ceases.
15 The second “general construction season” of the Special Waste Landfill is
16 projected to begin on April 4, 2016, which is approximately two (2) weeks prior
17 to the expiration of the requested extension. On and after April 17, 2016, no
18 additional coal ash will be deposited in Ash Pond 4 and the Project may proceed
19 without regard to the continued operational availability of Dale Units 3 and 4.
20 Also, and as originally planned, the relocation of existing transmission facilities
21 on the Dale Station site may occur without delay. Finally, because only a
22 relatively negligible volume of new coal ash is expected to be produced during

1 the relevant time, any impact on the timeline and cost of the Project is also
2 expected to be negligible.

3 **Q. ASSUMING THE SUBJECT EXTENSION IS OBTAINED, WILL THE**
4 **ESTIMATED COST OF THE PROJECT BE SIGNIFICANTLY**
5 **IMPACTED?**

6 A. No. As stated, EKPC does not believe that the estimated cost of the Project will
7 be impacted in any meaningful way by the continued operational availability of
8 Dale Units 3 and 4 through April 16, 2016. Although some increase in cost may
9 be realized due to the additional coal ash that must be transported and deposited at
10 the proposed Smith Special Waste Landfill, this cost increase is expected to be
11 negligible. Moreover, this cost would only be incurred if the Dale Station Units 3
12 or 4 are actually dispatched by PJM to generate electricity.

13 **Q. IN LIGHT OF THE DEVELOPMENTS DISCUSSED HEREIN, DOES**
14 **EKPC CONTINUE TO BELIEVE THAT THE PROJECT IS REQUIRED**
15 **FOR THE PUBLIC'S CONVENIENCE AND NECESSITY?**

16 A. Yes. Although the continued operational availability of Dale Units 3 and 4
17 through April of 2016 may arguably mean that the coal ash impoundments at Dale
18 Station may temporarily retain their "permit by rule" status provided by 401 KAR
19 45:060 Section 1(4) for one additional year, the Project continues to represent the
20 safest and most reasonable, least cost option for the permanent disposal of Dale
21 Station's coal ash. EKPC proposes to address an issue that is not only inevitable,
22 but truly on the near horizon. It would be both unwise and unreasonable to delay
23 pursuit of the Project, especially considering that the Project is anticipated to take

1 more than 2.5 years to complete. EKPC already has a Special Waste Landfill
2 permitted at Smith Station which is capable of, and provides the most reasonable
3 alternative for, receiving coal ash from Dale Station. In sum, the Project is
4 prudent and required for the public's convenience and necessity.

5 **Q. WILL EKPC KEEP THE COMMISSION INFORMED OF ANY**
6 **DEVELOPMENTS WITH RESPECT TO THE CONTINUED**
7 **OPERATIONAL AVAILABILITY OF DALE UNITS 3 AND 4?**

8 A. Yes. As evidenced by this supplemental testimony, EKPC strives to keep the
9 Commission fully informed of any facts relevant to its decision in this matter.
10 Although the continued operation of Dale Units 3 and 4 after April 16, 2015,
11 would have only a very minor impact on the Project, EKPC will update the
12 Commission upon receipt of a decision from the DAQ concerning the subject
13 extension.

14 **Q. PLEASE SUMMARIZE YOUR SUPPLEMENTAL TESTIMONY.**

15 A. Since the commencement of this case, EKPC and PJM have held numerous
16 discussions during which PJM has expressed concern regarding near-term
17 generation capacity and the adequacy of available resources to maintain the
18 reliability of the high voltage electricity grid that PJM operates. PJM has
19 requested that EKPC seek a one-year extension from the DAQ for Units 3 and 4
20 of Dale Station to become compliant with MATS, and EKPC has agreed to do so.
21 EKPC believes that extending the operational availability of Dale Units 3 and 4
22 will have a positive impact on both the reliability of the greater electricity grid
23 and on EKPC's margins. The Project will remain largely unchanged if the subject

1 extension is granted, and the Project remains a most reasonable solution to an
2 issue EKPC must undoubtedly address.

3 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

4 A. Yes.

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

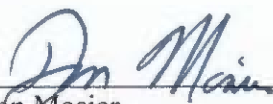
**AN APPLICATION OF EAST KENTUCKY)
POWER COOPERATIVE, INC. FOR A)
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ASH LANDFILL AT J. K. SMITH STATION TO)
RECEIVE IMPOUNDED ASH FROM WILLIAM)
C. DALE STATION, AND FOR APPROVAL OF A)
COMPLIANCE PLAN AMENDMENT FOR)
ENVIRONMENTAL SURCHARGE RECOVERY)**

**CASE NO.
2014-00252**

VERIFICATION OF DON MOSIER

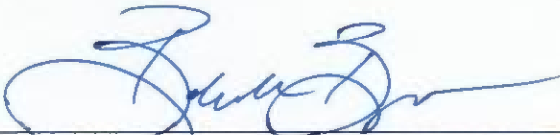
COMMONWEALTH OF KENTUCKY)
)
COUNTY OF CLARK)

Don Mosier, being duly sworn, states that he has read the foregoing prepared supplemental direct testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.



Don Mosier

The foregoing Verification was signed, acknowledged and sworn to before me this 18th day of December, 2014, by Don Mosier.



NOTARY PUBLIC, Notary # 502993
Commission expiration: 11/27/18



December 16, 2014

Via Hand Delivery and Electronic Mail

Sean Alteri, Director
Kentucky Division for Air Quality
200 Fair Oaks Lane, First Floor
Frankfort, KY 40601

Re: William C. Dale Power Station (AI 809)
MATS Compliance Extension Request for Units 3 and 4

Dear Mr. Alteri:

Pursuant to Section 112(i)(3)(B) of the Clean Air Act, East Kentucky Power Cooperative, Inc. (EKPC) hereby requests a one-year extension of the compliance date for the National Emission Standards for Hazardous Air Pollutants from Coal- and Oil-Fired Electric Utility Steam Generating Units, also known as the Mercury and Air Toxics Standards (MATS), promulgated at 40 CFR Part 63, Subpart UUUUU. Specifically, EKPC requests the extension of the compliance date from April 16, 2015 through April 16, 2016 for Units 3 and 4 at Dale Station. As discussed in more detail below, an extension is necessary to address reliability concerns identified by the regional transmission organization in which EKPC participates.

A. Background

You have or will soon receive a letter from PJM Interconnection, L.L.C. ("PJM") requesting an extension of the MATS compliance date for Dale Units 3 and 4 to help PJM ensure resource adequacy through the winter of 2015/2016. (A copy is attached hereto for your convenience.) EKPC joined PJM on June 1, 2013 and transferred functional control of its high voltage transmission system to PJM on this date. EKPC also became a Generation Owner and participant in the Reliability Planning Model ("RPM") capacity market at that time. Dale Units 3 and 4 currently operate in the PJM system as capacity available to be dispatched to serve the daily energy markets.

PJM is a regional transmission organization ("RTO") that coordinates the movement of wholesale electricity in Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. Acting as a neutral, independent party, PJM manages a competitive wholesale

December 16, 2014

Page | 2

electricity market and operates the high-voltage electricity grid to ensure reliability for more than 61 million electric customers.

PJM is the Reliability Coordinator for PJM members within the PJM Balancing Authority Area. PJM operates in compliance with the PJM Reliability Plan. All PJM members must sign the PJM Operating Agreement. Pursuant to the terms of this Agreement, PJM members commit to comply with the PJM Reliability Coordinator directives unless such directives would violate safety codes, equipment/operational thresholds, and/or regulatory/statutory/permit requirements. As of June 1, 2013, PJM has been the Reliability Coordinator for EKPC.

PJM has identified reliability concerns in regard to the level of generation that will be available in the RTO through 2016. To address these concerns, PJM asked its members what, if any, projected generating unit retirements could be delayed until the time additional generation could be made available to the PJM RTO. EKPC responded that it could continue to operate its Dale Units 3 and 4 through April 16, 2016, if it received a one-year extension of the MATS compliance date. If the extension request is granted, the capacity from those Units could be used to offset the level of generation that will be lost to the RTO in the 2015/16 operating year and will improve reliability for the entire RTO.

B. Request for Extension

In the preamble to the MATS rule, USEPA agreed with commenters that reliability concerns could be a basis for a one-year compliance extension of the MATS deadline. *MATS Final Rule*, 77 Fed. Reg. 9304, 9410 (Feb. 16, 2012). USEPA stated that the discretion to provide a 1-year extension lies with the permitting authority: “if the permitting authority determines, for example, based on information from the RTO or other planning authority . . . , that continued operation of a particular unit slated for retirement for some or all of the additional year is necessary to avoid a serious risk to electric reliability.” *Id.*

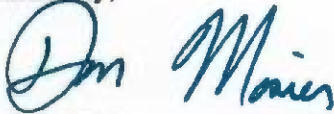
As explained in the PJM letter, available generation capacity beyond the April 16, 2015 MATS compliance deadline will decline significantly for the 2015/2016 Delivery Year. Available generation capacity will begin to bounce back (but not fully recover) in the 2016/2017 Delivery Year.

As a result, based on this and other information addressed in its letter, PJM has requested that EKPC continue to make available Dale Units 3 and 4 after April 16, 2015 through April 16, 2016, rather than deactivate the units. Accordingly, EKPC requests a one-year extension of the MATS compliance deadline pursuant to Section 112(i)(3)(B) of the Clean Air Act.

December 16, 2014
Page | 3

Thank you for your consideration of this matter. By granting the extension request, continued operation of Dale Units 3 and 4 will be allowed through April 16, 2016, which will have a significant positive impact on the provision of reliable electric service for the cooperative members served by EKPC via the PJM RTO. If you have any questions regarding this request, please contact me at 859.745.9310.

Sincerely,



Don Mosier
Chief Operating Officer
& Executive Vice President

Enclosures

cc: Jackie Quarles, OGC
Craig Johnson
David Crews
Jerry Purvis



2750 Monroe Blvd
Valley Forge Corporate Center
Audubon, PA 19403-2497

Michael J. Kormos
Executive Vice President, Operations
610-666-8943
Mike.Kormos@pjm.com

December 16, 2014

Mr. Sean Alteri
Director
Kentucky Department for Environmental Protection
Division for Air Quality
200 Fair Oaks Lane
Frankfort, KY 40601

Via Electronic Mail and Federal Express

Dear Mr. Alteri:

PJM Interconnection, L.L.C. ("PJM") is writing to the Kentucky DEP to provide supporting information regarding the potential extensions of East Kentucky Power Cooperative Dale 3 and 4 Units and their ability to help PJM ensure resource adequacy through the winter of 2015/2016. In this spirit, this letter provides the current PJM assessment of available Generation Capacity Resources during the next 3 years in light of recent winter operations, and now the recent decision of the DC Circuit Court of Appeals case *EPSA v. FERC* regarding demand response, as the compliance deadline for the United States Environmental Protection Agency's ("US EPA") Mercury and Air Toxics Standards ("MATS") approaches in April 2015. Through this letter, PJM hopes to enable further understanding of the importance of ensuring resource adequacy to maintain the reliability of the high voltage electricity grid that PJM operates.

As background, PJM is the Federal Energy Regulatory Commission ("FERC") approved Regional Transmission Organization ("RTO") serving all or parts of the 13 states of Illinois, Indiana, Michigan, Kentucky, Tennessee, Ohio, West Virginia, North Carolina, Virginia, Maryland, Delaware, Pennsylvania and New Jersey, plus the District of Columbia. PJM operates the largest competitive wholesale market in the nation and is responsible for both the planning and reliable operation of the bulk power electric grid, as shown in Figure 1.

Reliable operation of the bulk power electric grid requires ensuring that there will be sufficient resources to serve the peak needs of the system. PJM administers a Reliability Assurance Agreement (RAA) among the Load Serving Entities (LSEs) of PJM, which is intended to: 1) ensure that adequate resources will be planned and made available to provide reliable service to loads within PJM, 2) ensure LSEs will assist each other during emergencies, and 3) coordinate planning of capacity resources consistent with a defined set of reliability principles and standards. It is also intended that the RAA be implemented in a manner consistent with the development of a robust competitive marketplace.

As such, in order to meet these resource adequacy objectives and requirements, PJM obtains commitments from generation and demand-side resources to be Capacity Resources three years prior to the period for which the obligation of the Capacity Resources is applicable. The obligation period for capacity resources in PJM is known as the Delivery Year and is the 12 month period commencing June 1 and ending May 31 of the following calendar year.

Currently, when generation resources are committed as Capacity Resources, they take on many obligations. Chief among these obligations is to make available every day during the Delivery Year energy from the generation resource in the Day-ahead Energy Market unless on a scheduled outage for maintenance or forced

outage due to equipment failure. Additionally, in connection with the third intention of the RAA mentioned above, generator outages are coordinated in an attempt to avoid scheduling outages during summer and winter peak periods, and to ensure sufficient resource availability during spring and fall maintenance outage periods such as May or September when demand can be unusually high due to early or late season heat waves.

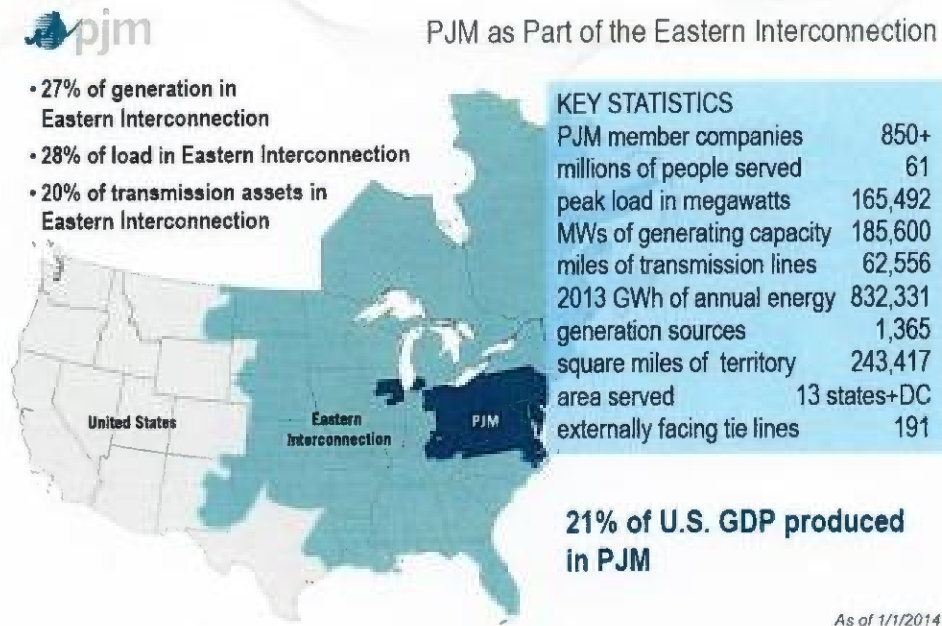


Figure 1: Summary Information Regarding PJM

However, as you may be aware, PJM through its Enhanced Liaison Committee Process has launched a stakeholder discussion on how to incentivize better generator performance that goes beyond the availability obligations aforementioned in the preceding paragraph¹. Better performance can be obtained through firming up fuel supplies and/or weatherization of generating units. Under this so-called Capacity Performance proposal, generators would effectively be paid to perform and failure to do so would result in significant financial penalties. *Even if the Capacity Performance proposal is approved by FERC, it is too late to help ensure enhanced resource performance and by extension resource adequacy in actual operations in time for the winter of 2015/2016 should PJM experience another Polar Vortex-like event with associated forced outages.*

Assessment of Near Term Generation Capacity in the Context of Winter 2014 Operations and Recent Judicial Decisions

As you are likely aware, the winter of 2014, and specifically the month of January 2014, presented PJM with a myriad of operational challenges ranging from higher than normal forced outage rates, to extreme spikes in natural gas prices, to gas curtailments, to operational limitations for gas units running on back-up fuel. And all

¹ PJM Enhanced Liaison Committee and supporting documentation on the Capacity Performance proposal can be found here: <http://www.pjm.com/committees-and-groups/committees/elc.aspx>

of this occurred while PJM set new winter peak records on consecutive days, and overall PJM experienced 8 of the 10 highest winter peaks ever in January 2014. During this time, it is important to note that at all times reliability was maintained and that at no time was firm load shed as a result of the frequent winter operational challenges.

One of the factors that helped PJM manage operations during January 2014 was the quantity of Generation Capacity Resources available to PJM. However, as more generation retirements due to MATS or general economic conditions are scheduled to occur, available generation capacity beyond the MATS compliance deadline will decline significantly for the 2015/2016 Delivery Year and begin to bounce back but not fully recover in the 2016/2017 Delivery Year as shown in Figure 2.

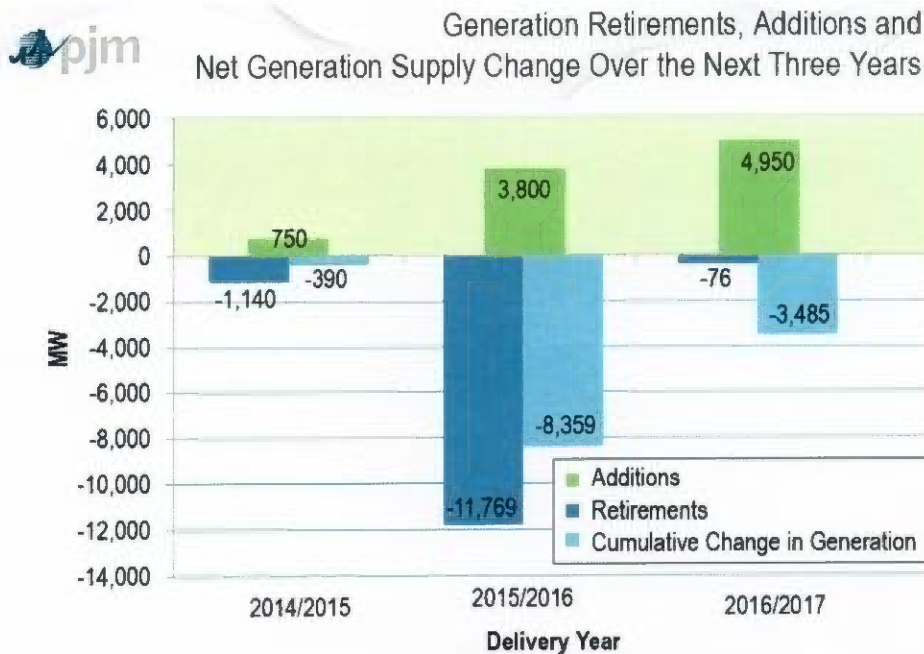


Figure 2: Cumulative Anticipated Generation Changes in PJM through 2016/2017

In particular, for the 2015/2016 Delivery Year, there will be 8,359 MW less generation than there is today, and in the following Delivery Year for 2016/2017 new entry will shrink this net decline in generation resources to less than 3,500 MW. This lower reserve margin has a significant impact on the 2015/2016 winter loss of load risk. PJM studies indicate a pronounced risk of loss of load in winter 2015/2016 if Polar Vortex conditions occurred and outage rates were as high as PJM experienced in January 2014 – 15% over and above the expected 7% forced outage rate. PJM would almost certainly experience a loss of load event under such conditions. Figure 3 shows the various forced outage rates, over and above the expected 7% forced outage rate, that could occur during Polar Vortex-like conditions. This figure shows that if the actual forced outage rate were 13% above the expected 7% forced outage rate, there would be a 95% chance of experiencing a loss of load event (that equates to an outage rate 2% below what PJM experienced on January 7, 2014). Operating procedures for a general resource adequacy shortfall would be to shed load based on a pro rata share across the RTO, and so it is impossible to say where, specifically on the system, loss of load may occur.

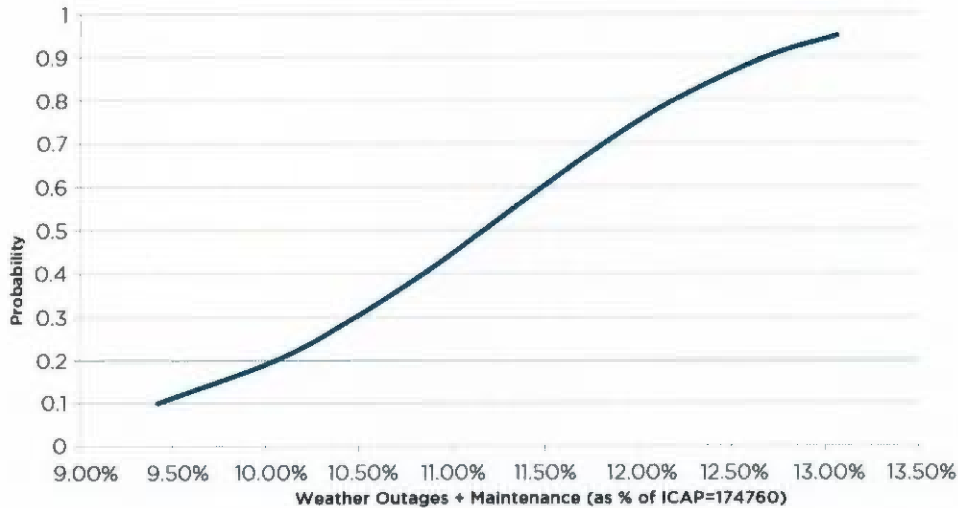


Figure 3: Winter 2015/2016 Loss of Load Probability and Generation Outage Rates.
During the Winter 2015/2016, if PJM experiences outage rates similar to those during the Polar Vortex of January 2014, loss of load events would almost certainly be expected.

In addition to the capacity situation outlined above for the winter 2015/2016, the recent DC Circuit Court of Appeals decision in *EPSA v. FERC* calls into question whether the commitments of nearly 15,000 MW of Demand Resources will be available to PJM at all or in what quantity they may be available to PJM to meet the summer peak in 2015. Absent the *EPSA v. FERC* decision, PJM was not expecting a resource adequacy problem for the summer peak season of 2015, but still would have concerns ensuring resource adequacy for the winter 2015/2016 peak as just under 400 MW of Demand Resources would be required to respond during winter peak events making it even more difficult to schedule outages, if required, during winter peak periods.

It is for these reasons that PJM supports East Kentucky Power Cooperative's request for a one year extension on the deactivation of their Dale 3 and 4 Units. As the initial compliance date for the US EPA's MATS is April 16, 2015, a one year extension for these units, as provided for under the Clean Air Act and enforcement guidance provided by EPA, will ensure they are able to operate through the winter of 2015/2016 where they will contribute to maintaining resource adequacy during that time.

I hope this letter provides a better understanding of the need to ensure resource adequacy to maintain reliable operations in PJM as well as the anticipated generation capacity situation for the winter of 2015/2016 in the context of January 2014 winter operations. Should you have any questions regarding PJM's resource adequacy concerns for the 2015/2016 Delivery Year, please do not hesitate to contact me at any time.

Sincerely,

Michael J. Kormos
Executive Vice President, Operations