

Goss ■ Samford PLLC



Mark David Goss
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January 23, 2015

RECEIVED

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PUBLIC SERVICE
COMMISSION

VIA HAND DELIVERY

Mr. Jeff 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:

Please find enclosed for filing with the Commission in the above-referenced case: (1) an original and ten (10) copies of the Supplemental Response of East Kentucky Power Cooperative, Inc. ("EKPC"), to Commission Staff's First Request for Information (Request No. 20(c)) dated October 9, 2014; (2) an original and ten (10) copies of the Responses of EKPC to Commission Staff's Third Request for Information dated January 12, 2015; (3) an original and ten (10) copies of a Motion for Confidential Treatment; (4) a redacted original and ten (10) redacted copies of the Responses of EKPC to the Attorney General's Third Request for Information dated January 14, 2015; and (5) an un-redacted copy (with certain Confidential Information highlighted) of the Responses of EKPC to the Attorney General's Third Request for Information dated January 14, 2015, which is to be filed and kept under seal.

Please return file-stamped copies to me.

Very truly yours,

Mark David Goss

Enclosures

cc: Parties of Record

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

In the Matter of:

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, THE REMOVAL OF)	CASE NO.
IMPOUNDED ASH FROM WILLIAM C. DALE STATION)	2014-00252
FOR TRANSPORT TO J. K. SMITH AND APPROVAL)	
OF A COMPLIANCE PLAN AMENDMENT FOR)	
ENVIRONMENTAL SURCHARGE RECOVERY)	

**RESPONSES TO COMMISSION STAFF'S THIRD REQUEST FOR
INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED JANUARY 12, 2015**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

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, THE REMOVAL OF) CASE NO.
IMPOUNDED ASH FROM WILLIAM C. DALE STATION) 2014-00252
FOR TRANSPORT TO J. K. SMITH AND APPROVAL)
OF A COMPLIANCE PLAN AMENDMENT FOR)
ENVIRONMENTAL SURCHARGE RECOVERY)

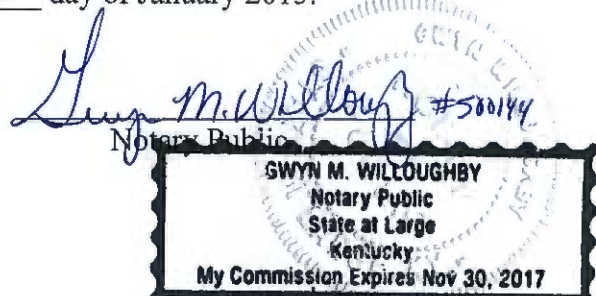
CERTIFICATE

STATE OF KENTUCKY)
COUNTY OF CLARK)

Matt Clark, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Third Request for Information in the above-referenced case dated January 12, 2015, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.



Subscribed and sworn before me on this 23rd day of January 2015.



Gwyn M. Willoughby #500144
Notary Public
GWYN M. WILLOUGHBY
Notary Public
State at Large
Kentucky
My Commission Expires Nov 30, 2017

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2014-00252
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION DATED 01/12/15
REQUEST 1

RESPONSIBLE PARTY: Don Mosier

Request 1. Refer to the Supplemental Direct Testimony of Don Mosier on Behalf of East Kentucky Power Cooperative, Inc. ("Mosier Supplemental Testimony"), page 3, lines 22-23. Provide copies of any and all correspondence, notes, or memoranda concerning the discussions EKPC had with PJM Interconnection, LLC ("PJM") regarding the one-year extension for Dale Units 3 and 4 to comply with the Mercury and Air Toxics Standards.

Response 1. Please see pages 2 through 13 of this response for the requested documents. In addition, EKPC has received approval from the Division of Air Quality for the extension. Please see page 14 of this response for a copy of the approval letter.

Gwyn Willoughby

Page 2 of 14

From: Chuck Dugan
Sent: Wednesday, January 14, 2015 12:18 PM
To: Patrick Woods
Subject: FW: 2015 - 16 Capacity

From: Stu.Bresler@pjm.com [<mailto:Stu.Bresler@pjm.com>]
Sent: Thursday, October 23, 2014 10:17 AM
To: Chuck Dugan
Cc: Don Mosier; David Crews; Jerry Purvis; ott@pjm.com
Subject: RE: 2015 - 16 Capacity

Hi Chuck –

We can certainly discuss the details of the situation at this station, but PJM is not going to be able to commit to anything regarding the procurement of additional capacity for 15/16 until such time as we file rules to do so and have them approved by FERC.

- Stu

From: Chuck Dugan [<mailto:chuck.dugan@ekpc.coop>]
Sent: Thursday, October 23, 2014 9:40 AM
To: Bresler, Frederick S. (Stu) III
Cc: Don Mosier; David Crews; Jerry Purvis
Subject: RE: 2015 - 16 Capacity

External Email! Think before clicking links or attachments.

Stu,
There are some time sensitive issues in regard to the retirement of Dale Station. Is this something that we could discuss at this point?

Thanks,
Chuck

From: Stu.Bresler@pjm.com [<mailto:Stu.Bresler@pjm.com>]
Sent: Wednesday, October 22, 2014 9:43 PM
To: Chuck Dugan
Cc: Don Mosier; David Crews
Subject: RE: 2015 - 16 Capacity

Thank you Chuck, this is helpful to know and will certainly be considered as we consider potential transition mechanisms under the CP proposal.

- Stu

From: Chuck Dugan [<mailto:chuck.dugan@ekpc.coop>]
Sent: Wednesday, October 22, 2014 4:18 PM
To: Bresler, Frederick S. (Stu) III
Cc: Don Mosier; David Crews
Subject: 2015 - 16 Capacity

Page 3 of 14

External Email! Think before clicking links or attachments.

Stu,

As you may know, EKPC will be retiring our Dale Units effective April 2015 due to EPA regulations. The life of these units may have been extended another year had there been a local instability problem which there wasn't. We believe that we may be able to delay the retirement of these units if needed for reliability. Stated another way, if PJM is looking for additional capacity for the winter of 15, we believe we could make Dale units 3 and 4 available.

Regards,
Chuck

Chuck Dugan

From: David.Schweizer@pjm.com
Sent: Tuesday, November 25, 2014 4:21 PM
To: Chuck Dugan
Subject: EKPC - Extension of Deactivating Generation Resources
Attachments: DRAFT SURVEY QUESTION TO GENERATION OWNERS WITH DEACTIVATING UNITS IN 20....pdf

PJM is requesting that you provide the information outlined in the attached survey to obtain more information from Generation Owners about the ability to extend the operation of deactivating units through April, 2016.

Please contact me with any questions.

David P. Schweizer, P.E.
Manager, Generation
PJM Interconnection
610-666-4503



November 25, 2014

To: Generation Owners with deactivating units

From: PJM Generation Department

Subject: Questionnaire about extending deactivating units through April 2016

Given legal uncertainty about the availability of Demand Response capacity resources in the 2015/2016 Delivery Year, at the time when a large amount of generation is scheduled to deactivate, PJM is gathering more information from Generation Owners about the ability to extend operation of deactivating units through April 2016.

This questionnaire seeks more detailed information from Generation Owners about the viability of this approach to address potential resource adequacy concerns during periods of the 15/16 Delivery Year. This questionnaire is not a binding commitment or representation from Generation Owners regarding the continued operation of deactivating generators, and the responses will be considered and treated as confidential per Section 18.17 of the Operating Agreement.

In the interest of time, PJM is requesting that responses be submitted to David Schweizer, Manager, Generation Department, at david.schweizer@pjm.com no later than close of business on Friday, December 5th. We appreciate in advance your willingness to share this information and the time taken to complete the questionnaire.



Please answer the following questions to the best of your ability.

1. If PJM sought to commit additional units through April 2016 of the 2015/2016 Delivery Year due to the potential loss of Demand Response resources and other conditions, please explain which units, if any, your company might be able to offer to PJM as well as any necessary conditions or limitations on such offer?
 - a. Of these units, if any, please specify any necessary conditions or limitations on these units (i.e. Emergency Summer only, Emergency Winter only, No restrictions, other).
 - b. Provide a list of all units for which your company has sought extensions from the applicable state and federal environmental authority for operation beyond April 2015, and the disposition of same. If applicable, please provide copies of all permits and other documentation related to the extension proceeding.
 - c. Are you currently considering changing the deactivation date for any of your units?

2. In general, please provide information on the financial requirements that would be needed for the unit to continue operating beyond its deactivation date?
 - a. Please explain any prerequisites to the company offering a unit into an incremental auction for operation through April 2016, if such an auction were held by PJM.
 - b. Please explain any prerequisites to the company entering into an RMR contract for operation through April 2016, if PJM were to utilize RMR contracts to secure additional capacity.

3. Describe the level of state regulatory support that would be needed from PJM to request the extension of unit operations.
 - a. What is the deadline by which you would need a formal indication from PJM of the reliability needs for extending the unit in order to file for MATS



- extension or other additional permitting needed (i.e. a letter describing the reliability concerns to be submitted to state office, or other)?
- b. Please comment on additional regulatory or legal concerns about requesting an extension.
-
4. If extended, would additional operating restrictions be placed on the unit or would current eMkt bid parameters (i.e. notification + start time, etc.) remain in effect?
 5. What measures have you taken to deactivate the unit by June 1, 2015 that would be particularly difficult to reverse course (i.e. labor contracts, delayed equipment upgrades, fuel contracts, etc)?
 - a. Specifically, have you sold the Capacity Injection Rights for any deactivating units to another party? If so, please describe the situation.
 6. Please briefly describe any additional issues you would want to see addressed associated with extending the deactivating units you have identified in response to this questionnaire.

Submitted by:

Company name:

Chuck Dugan

From: David.Schweizer@pjm.com
Sent: Friday, December 05, 2014 2:27 PM
To: Julie Tucker
Cc: Chuck Dugan; Scott.Baker@pjm.com
Subject: RE: EKPC - Extension of Deactivating Generation Resources

Julie – thanks for your responses.

David P. Schweizer, P.E.
Manager, Generation
PJM Interconnection
610-666-4503

Please note new email address:
david.schweizer@pjm.com

From: Julie Tucker [<mailto:julie.tucker@ekpc.coop>]
Sent: Friday, December 05, 2014 2:17 PM
To: Schweizer, David P.
Cc: Chuck Dugan
Subject: FW: EKPC - Extension of Deactivating Generation Resources

External Email! Think before clicking links or attachments.

Hi Dave,

Below are EKPC's responses to your survey request. As you are aware, we are currently working with PJM on a letter to request operational extension of the Dale 3 and 4 units.

Please let me know if you have additional questions.

Julie Tucker

Director, Power Supply
East Kentucky Power Cooperative
859-745-9320

1. Dale 3 and Dale 4
 - a. No limitations
 - b. EKPC has not yet sought extensions from applicable state and federal authority for these units.
 - c. Based on the proposed letter from PJM, EKPC plans to seek a one year extension for operation of the Dale 3 and 4 units.

2. There are no additional financial requirements for the units to continue operating beyond its deactivation date, except for normal operations and maintenance costs.
 - a. Dale 3 and 4 have already cleared the FRR/RPM auctions for 2015/16 Delivery Year. EKPC would expect to maintain these requirements as currently listed.
 - b. Any RMR contract would have to be equal to or greater than the FRR/RPM obligations currently held by the Dale 3 and 4 units.
3. EKPC would ask (and already has asked) PJM for a statement letter that the units continue to be needed for reliability purposes and the letter would be directed to both the State and Federal EPA offices.
 - a. December 17, 2014 is the absolute deadline.
 - b. EKPC returned a copy of the proposed letter with requested changes. That letter should be sufficient for the requested extension requirements.
4. Current eMkt bid parameters would remain in effect.
5. Nothing has been identified as difficult to reverse actions.
 - a. No
6. Receipt of an updated letter, as proposed in an earlier email today, Dec. 5, 2014, should be sufficient to request the extension. Getting this letter sent asap is in everyone's best interest.

From: Chuck Dugan
Sent: Wednesday, November 26, 2014 8:35 AM
To: David Crews; Don Mosier; Julie Tucker
Subject: FW: EKPC - Extension of Deactivating Generation Resources

I contacted Stu about this several weeks ago to see if PJM had any interest. He couldn't commit at the time. It looks like they are possibly interested now.

From: David.Schweizer@pjm.com [<mailto:David.Schweizer@pjm.com>]
Sent: Tuesday, November 25, 2014 4:21 PM
To: Chuck Dugan
Subject: EKPC - Extension of Deactivating Generation Resources

PJM is requesting that you provide the information outlined in the attached survey to obtain more information from Generation Owners about the ability to extend the operation of deactivating units through April, 2016.

Please contact me with any questions.

David P. Schweizer, P.E.
Manager, Generation
PJM interconnection
610-666-4503



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 *EPSCA 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.

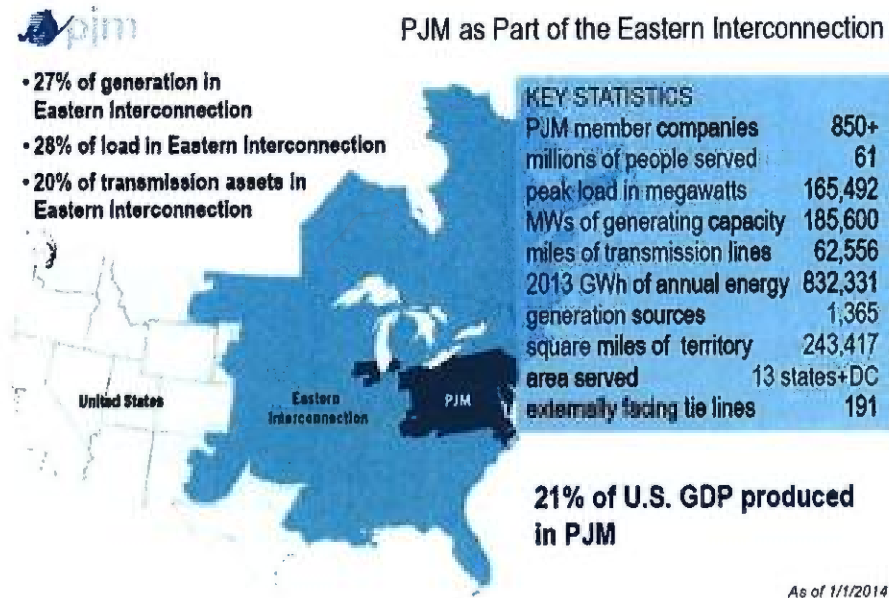


Figure 1: Summary Information Regarding PJM

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.

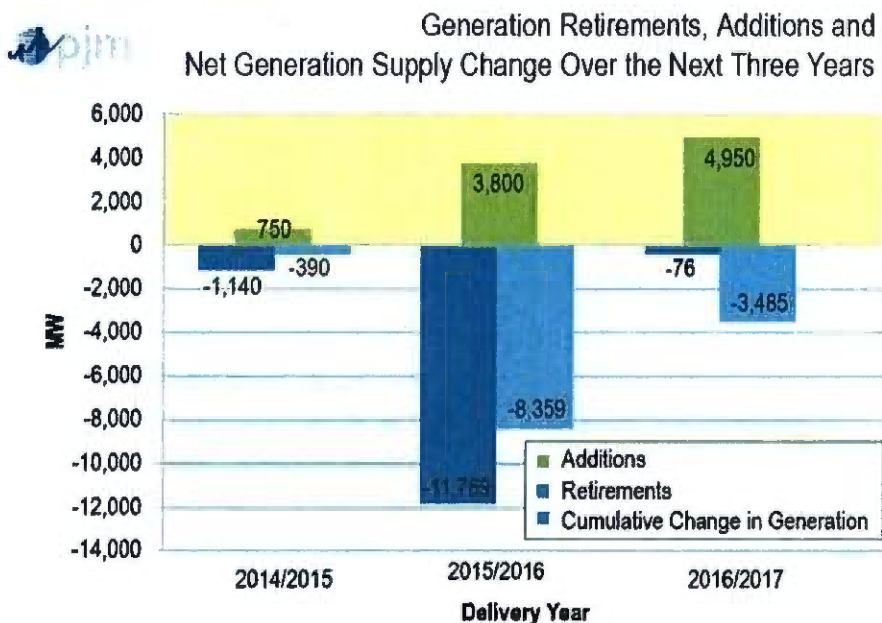


Figure 2: Cumulative Anticipated Generation Changes in PJM through 2016/2017

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.

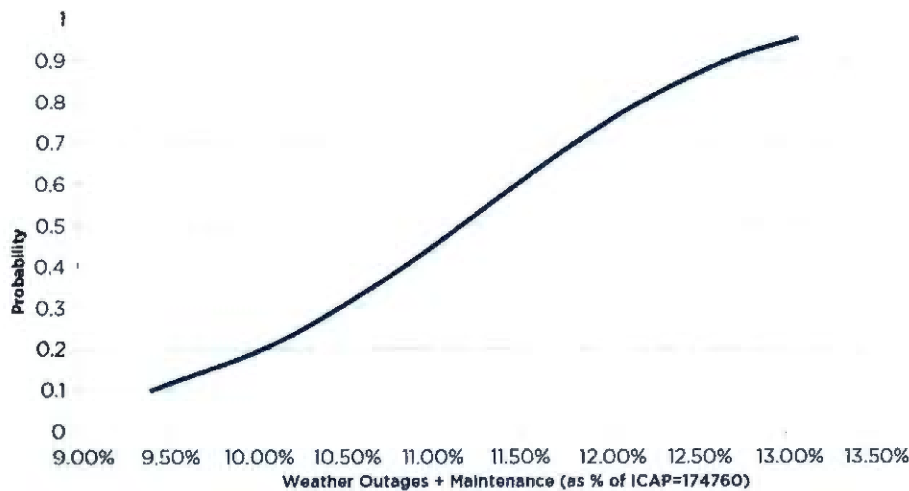


Figure 3: Winter 2015/2016 Loss of Load Probability and Generation Outage Rates.
During the Winter 2015/2016, if PJM experiences outage rates similar to those during the Polar Vortex of January 2014, loss of load events would almost certainly be expected.

In addition to the capacity situation outlined above for the winter 2015/2016, the recent DC Circuit Court of Appeals decision in *EPSCA 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 *EPSCA 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



Steven L. Beshear
Governor

**Energy and Environment Cabinet
Department for Environmental Protection**

Leonard K. Peters
Secretary

Division for Air Quality
200 Fair Oaks Lane, 1st Floor
Frankfort, Kentucky 40601
www.air.ky.gov

January 6, 2015

Mr. Jerry Purvis
Director, Environmental Affairs
East Kentucky Power Cooperative
P.O. Box 707
Winchester, Kentucky 40392-0707

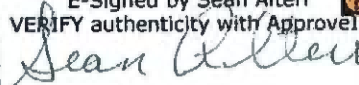
RE: Compliance extension approval for 40 CFR 63, Subpart UUUUU
Permittee Name: East Kentucky Power Cooperative
Source Name: William C. Dale Power Station
AI/ID/Activity: 809/21-049-00003/APE20140004
Permit: V-08-009

Dear Mr. Purvis:

This letter is in response to your letter dated December 16, 2014, requesting a compliance extension to the federal Mercury and Air Toxic Standards (MATS) requirements for the William C. Dale Power Station located in Clark County, Kentucky. After reviewing the request, the Division concludes that the submittal contains sufficient information to make a determination regarding the request for an extension of compliance. Furthermore, the Division grants the compliance extension request for Dale Units 3 and 4 until April 16, 2016. This compliance extension applies to the requirements established under 40 CFR 63, Subpart UUUUU.

In accordance with 40 CFR 63.6(i)(4), the conditions of the extension of compliance, specifically the compliance date, granted through this approval letter will be incorporated into the Title V permit upon the next significant revision or renewal. If you have further questions regarding this matter, please contact Mr. Derek Picklesimer, Combustion Section Supervisor of the Permit Review Branch at (502) 564-3999, extension 4464.

Sincerely,

E-Signed by Sean Alteri
VERIFY authenticity with ApproveIt


Sean Alteri
Director

SA/dp

Printed on Recycled Paper

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2014-00252
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION DATED 01/12/15
REQUEST 2

RESPONSIBLE PARTY: Don Mosier

Request 2. Refer to the Mosier Supplemental Testimony, page 4, lines 10-13.

Request 2a. Provide in detail the amount of capacity revenues that EKPC anticipates receiving for the 2015/2016 Delivery Year from the continued operation of Dale Units 3 and 4, if those two units were to receive a one-year MATS compliance extension.

Response 2a. Dale 3 and 4 were in operation when the First Incremental Auction for 2015/16 Delivery Year was held in September 2013. No firm plans had been made at that time to retire the units, so no exception to the "must offer" requirement was requested by EKPC. Therefore, EKPC had a "must offer" obligation to include the units' capacity in that auction. Based on the auction clearings, Dale 3 and 4 have obligations to supply power from June 1, 2015 through May 31, 2016.

Dale 3 cleared the market for a total of 72.6 MW of capacity, 67.5 MW committed to EKPC's FRR requirements and 5.1 MW committed to the RPM market. The RPM market cleared at \$43/MW-day. EKPC will receive \$219.30/day revenue credit from PJM for

this capacity for a total of \$80,044 during the Delivery Year. If the capacity had not been available to help supply EKPC's FRR requirement, then it would have been purchased at the \$43/MW-day value, so the 67.5 MW has an avoided cost value of \$2,902.50/day or \$1,059,412 for the year. The total value of Dale 3 in the 2015/16 Delivery Year capacity market is \$3,121.80/day or \$1,139,457 for the year.

Dale 4 cleared the market for a total of 75.0 MW of capacity, 70.0 MW committed to EKPC's FRR requirements and 5.0 MW committed to the RPM market. The RPM market cleared at \$43/MW-day. EKPC will receive \$215/day revenue credit from PJM for this capacity for a total of \$78,475 during the Delivery Year. If the capacity had not been available to help supply EKPC's FRR requirement, then it would have been purchased at the \$43/MW-day value, so the 70.0 MW has an avoided cost value of \$3,010/day or \$1,098,650 for the year. The total value of Dale 4 in the 2015/16 Delivery Year capacity market is \$3,225/day or \$1,177,125 for the year.

The two units together provide a current value of \$6,346.80 per day or \$2,316,582 per year. EKPC will receive these revenues regardless of the MATS extension status since this is what was committed in the capacity auction. Prior to the request by PJM to extend operation of Dale, EKPC was planning to replace this capacity obligation by buying an equivalent amount of capacity from the Third Incremental Auction for 2015/16, which will be held in February 2015. The most recent Second Incremental Auction cleared at \$136/MW-day. Market projections indicate the Third Incremental Auction may clear at this level or higher. The

extension of Dale 3 and 4 therefore potentially avoids EKPC paying a replacement cost of (\$136 - \$43)/MW-day times 147.6 MW, or \$5,010,282.

Request 2b. Given that EKPC's original intent was to place Dale Units 3 and 4 in indefinite storage beginning in April 2015, will EKPC receive any compensation from PJM, either in the form of a Reliability Must Run agreement or a similar type of arrangement, for EKPC's decision to now continue operation of Dale Units 3 and 4 through April 2016 as a result of the reliability concerns raised by PJM? If not, provide the reasons why EKPC will not receive any such compensation from PJM.

Response 2b. In order to qualify for a Reliability Must Run agreement, EKPC would have to define and prove its additional costs to keep the units viable and request repayment from PJM, net of any other compensation received. EKPC expects the fixed costs of continuing to operate the units for another year to be minimal. Since EKPC is already receiving an equivalent value of \$2.3 million from the capacity market, and it is not expected that the costs to keep the units viable for an additional year will approach anything near this value, then EKPC would not be qualified to receive additional compensation through a Reliability Must Run agreement. The terms and conditions for this type of agreement can be found in PJM's Manual 14D, Section 9.2.

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2014-00252
RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION DATED 01/12/15
REQUEST 3**

RESPONSIBLE PARTY: Don Mosier

Request 3. Refer to the Mosier Supplemental Testimony, page 4, lines 13-16. Provide the analysis that EKPC performed to conclude that the benefits outweighed the minimal risks associated with the continued operation of Dale Units 3 and 4.

Response 3. Please refer to EKPC's response to PSC Request 2. EKPC expects to avoid costs of up to \$5 million due to the extension and it supports PJM's request for additional capacity to address reliability concerns during the 2015/16 winter peak season.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2014-00252
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION DATED 01/12/15
REQUEST 4

RESPONSIBLE PARTY: Don Mosier

Request 4. Refer to the Mosier Supplemental Testimony, page 5, lines 5-8. Provide the analysis and supporting calculations performed by EKPC in arriving at the conclusion that capacity revenues received from PJM would entirely offset any incremental variable expense in keeping Dale Units 3 and 4 operational through the 2015/2016 Delivery Year.

Response 4. EKPC provides an offer curve to PJM every day for each of its units. This curve is predicated on the expected variable costs to operate the unit. If PJM requests the unit to operate, then they are committing to cover the costs described in EKPC's offer curve. Therefore, the variable expenses related to the operation of Dale Station will be covered by the PJM energy market revenues or the unit will not be dispatched.

EAST KENTUCKY POWER COOPERATIVE, INC.
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COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION DATED 01/12/15
REQUEST 5

RESPONSIBLE PARTY: Don Mosier

Request 5. Refer to the Mosier Supplemental Testimony, page 6, lines 5-9.

Request 5a. How often does EKPC project Dale Units 3 and 4 will be dispatched by PJM during the 2015/2016 Delivery Year? Provide the basis for this projection.

Response 5a. Dale 3 and 4 are not expected to run under normal load and price conditions in the 2015/16 Delivery Year, as has been the case since March 2014. However, if extreme load and/or price conditions occur then the Dale units would be available to run. Out of 100 iterations of the production cost model (RTSim), the units were only expected to start 3 times during the winter peak season. This analysis is based on current forward market price projections, and reasonable high and low bounds set around those expectations. The most the units would be expected to run for the year is 7,500 MWh.

Request 5b. Based on the projection in 5.a., provide the amount of additional coal ash that will be produced and placed in Ash Pond 4.

Response 5b. Based on the 7,500 MWh maximum run projection, the amount of additional coal ash produced and placed in Ash Pond 4 is expected to be 450 dry tons of ash.

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REQUEST 6

RESPONSIBLE PARTY: Matt Clark

Request 6. Identify and quantify any additional incremental cost on the proposed Smith Landfill Project as a result of EKPC's decision to continue the operation of Dale Units 3 and 4 for an additional year through April 2016.

Response 6. The only additional incremental cost to the Smith Landfill Project as a result of the decision to operate Dale Units 3 and 4 will be the excavation, dewatering, loading, hauling, and placement of the additional ash that will be produced as a result of the coal combustion generation. Based on an estimate of 450 dry tons, that additional cost would be \$8,725.50.

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COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION DATED 01/12/15
REQUEST 7

RESPONSIBLE PARTY: Don Mosier

Request 7. Explain whether EKPC has considered requesting reimbursement from PJM for any incremental costs, no matter how negligible, for the volume of new coal ash that may be produced and the continued operation of Dale Units 3 and 4 that may exceed any capacity revenues.

Response 7. EKPC quantifies all variable costs associated (including the cost of coal ash retirement) with running the plant and include those costs in its daily offer curve for each of the units. The daily energy markets clear based on variable cost components, not the fixed costs. Therefore, the units will only run when the market price of energy is in excess of Dale 3 and 4 variable costs. The balance of the time, the PJM market provides energy at a cost that is less than the cost of Dale 3 and 4. When the PJM market calls for Dale 3 and 4, the energy from Dale 3 and 4 insulates EKPC's customers from higher cost energy from the market. EKPC does not expect Dale 3 and 4 to be called to operate by PJM in times where EKPC's generation would exceed its load requirement.