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Commissioner

December 29, 2015

PARTIES OF RECORD

Re: Case No. 2015-00358
Application of East Kentucky Power Cooperative, Inc. for Deviation from
Obligation Resulting from Case No. 2012-00169

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Quang Nguyen, Staff Attorney, at (502) 782-2586.

Sincerely,

A handwritten signature in black ink that reads "Stephanie Dell for JD".

Jeff Derouen
Executive Director

QN/ph

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Quang D. Nguyen, Staff Attorney

DATE: December 29, 2015

RE: Case No. 2015-00358
Application of East Kentucky Power Cooperative, Inc. for Deviation from
Obligation Resulting from Case No. 2012-00169

Pursuant to the Commission Staff's December 16, 2015 Order, an informal conference was held on December 22, 2015, at the Commission's offices in Frankfort, Kentucky. The purpose of the informal conference was to discuss any issues relating to the application. A list of the attendees is attached hereto.

In analyzing how to best flow the capacity revenues to be generated by its membership in PJM Interconnection, LLC ("PJM") to its members, EKPC representatives expressed two overriding guiding principles in evaluating the most reasonable mechanism to implement. First, EKPC stated that any margins it earns belong to its members because EKPC is a member-owned non-profit company. Second, the capacity benefits anticipated to be received by EKPC will be over a short time period, i.e., one to two PJM planning years.

EKPC then provided information regarding the trade benefits that it has realized to date, the capacity benefits that it has received to date and the capacity benefits that it expects to receive over the next several PJM planning years. EKPC stated that actual capacity revenues received for the 2016/2017 PJM planning year and the 2017/2018 planning year would produce margins that could be returned to members, but that projected capacity revenues for the remaining years of the 10-year study period would not generate margins. EKPC indicated that it has considered various methods to flow the capacity benefits back to its members, including a surcredit mechanism married with a surcharge to amortize the regulatory asset and recover the costs related to the construction of Smith Unit 1, refunding via a rate change, or capital credit rotation. EKPC stated that a refund would negatively impact its financial metrics such that EKPC would need to seek a base rate increase by the end of 2016 to offset the financial impact. EKPC further stated that flowing the capacity benefits to members via a patronage capital rotation would not impact its financial metrics. However, EKPC points out that it does not know how the capital credits would be treated by each of its 16 distribution cooperatives and how such capital credits would be allocated by each of the distribution cooperatives. Lastly, EKPC stated that a capital credit rotation would

need the approval of the Rural Utilities Service since EKPC's equity ratio is currently below 20 percent.

KIUC indicated that it was not aware that a rate refund would negatively impact EKPC's financial metrics and that utilizing a capital credit rotation would be workable and a preferred method but it will need to know how the distribution cooperatives would treat and allocate such capital credits.

In response to the AG regarding environmental compliance costs, EKPC stated that compliance costs related to the Coal Combustion Residuals Rule and the Effluent Limitations Guideline would be approximately \$100 million and that it might need to seek a CPCN to construct a natural gas-fired combined cycle unit to address the Clean Power Plan. Lastly, EKPC informed that it will need to file a base rate case in 2016 unless the capacity benefits are returned to members via a capital credit rotation mechanism.

The parties then discussed the next steps in this proceeding, including EKPC's continued assessment of all options to return the capacity benefits to members; submitting with the interim status report a demonstration by EKPC of the financial impact associated with each option considered; EKPC to engage in discussions with its distribution cooperatives regarding the capital credit rotation option; EKPC to present the options to its Board of Directors at the next Board meeting in February; and tentative discussions regarding scheduling of the next informal conference in late January.

There being no further discussions, the informal conference was adjourned.

Attachment

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)
COOPERATIVE, INC. FOR DEVIATION FROM) CASE NO.
OBLIGATION RESULTING FROM CASE NO.) 2015-00358
2012-00169)

Informal Conference – December 22, 2015

Please sign in:

NAME

REPRESENTING

Quang D Nguyen

PSC

Richard Raff

ASU

RICHARD RAFF

PSC-LEGAL

Jody Cohn

KIUC

Larry Cook

OAG

Beverly Heys

EKPC

Julia Tucker

EKPC

Mike McElbey

EKPC

MARK D. GOSS

Goss Sanford for EKPC

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KIUC

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