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MAR 13 2018

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of: : CASE NO: 2018-00050

THE APPLICATION OF SOUTH KENTUCKY
RURAL ELECTRIC COOPERATIVE CORPORATION
FOR APPROVAL OF MASTER POWER
PURCHASE AND SALE AGREEMENT
AND TRANSACTIONS THEREUNDER

RESPONSE OF SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION TO ATTORNEY GENERAL'S INITIAL DATA REQUESTS

Respectfully submitted,

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SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

CERTIFICATE OF SERVICE

Pursuant to 807 KAR 5:001 Section 6, the undersigned certifies that consistent with 807 KAR 5:001 Section 4(8)(d)(3), a copy of this document has been electronically served upon the following:

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This 13th day of March, 2018.

ATTORNEY FOR SKRECC

RECEIVED

MAR 13 2018

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION FOR APPROVAL OF MASTER POWER PURCHASE AND SALE AGREEMENT AND TRANSACTIONS THEREUNDER	)))))	**CASE NO. 2018-00050**

VERIFICATION

STATE OF FLORIDA

COUNTY OF ST. JOHNS COUNTY

William Steven Seelye, being duly sworn, states that he has supervised the preparation of the Responses of South Kentucky RECC in the above-referenced case dated February 26, 2018, 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.

W. Seelye
____

Subscribed and sworn before me on the 5th day of March, 2018.

NOTARY PUBLIC STATE OF FLORIDA
BRADLEY T. RING
MY COMMISSION # GG 025453
EXPIRES: September 29, 2020
Bonded Thru Budget Notary Services

Bradley T. Ring
____
Notary Public

My commission expires 9/29/2020.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:	:	CASE NO. 2018-00050
THE APPLICATION OF SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION FOR APPROVAL OF MASTER POWER PURCHASE AND SALE AGREEMENT AND TRANSACTIONS THEREUNDER	:	

VERIFICATION

STATE OF GEORGIA

COUNTY OF FULTON

Carter Babbit, being duly sworn, states that he has supervised the preparation of the Responses of South Kentucky RECC in the above-referenced case dated February 26, 2018, 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.

Carter Babbit
CARTER BABBIT

Subscribed and sworn before me on the 12th day of March, 2018

Alice P Green
Notary Public

My commission expires May 20, 2020.

ALICE P GREEN
NOTARY PUBLIC-GEORGIA
GWINNETT COUNTY
MY COMMISSION EXPIRES
MAY 20, 2020

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION FOR APPROVAL OF MASTER POWER PURCHASE AND SALE AGREEMENT AND TRANSACTIONS THEREUNDER	)))))	**CASE NO. 2018-00050**

VERIFICATION

STATE OF KENTUCKY

COUNTY OF PULASKI

Dennis Holt, being duly sworn, states that he has supervised the preparation of the Responses of South Kentucky RECC in the above-referenced case dated February 26, 2018, 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.

Dennis Holt
____

Subscribed and sworn before me on the 8th day of March, 2018.

Ashley Kerr
____
Notary Public

My commission expires 8/31/19.

ASHLEY KERR
NOTARY PUBLIC
STATE AT LARGE, KENTUCKY

Witness: William Steven Seelye

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

1. Can SKRECC guarantee that in the event the Commission approves the transaction as proposed, the remaining EKPC member-owner cooperatives will not have increased wholesale power costs from EKPC as a result?

Response:

South Kentucky can make no such guarantee, nor does its designation of an Alternate Source in accordance with Amendment 3 and the MOU require such.

South Kentucky would observe that EKPC has expressed the ability to mitigate the 58MW Alternate Source designation without an increase in wholesale rates. See Attachment AG#1.

Jeff C. Greer

From:	Terri Combs [redacted]
Sent:	Friday, December 29, 2017 3:32 PM
To:	A L Rosenberger ; Alan Ahrman - Owen; Barry Myers -- Taylor County; Bill Prather -- Farmers; Bobby Sexton--Big Sandy; Boris Haynes; Carol Fraley -- Grayson; Carol Wright - Jackson Energy; Chris Brewer - Clark Energy; Debbie Martin -- Shelby; Dennis Holt; Elbert Hampton; Jerry Carter; Jim Jacobus -- Inter-County; Jimmy Longmire -- Salt River; Jody Hughes; Joe Spalding, Inter-County Energy; Joni Hazelrigg; Kelly Shepherd; Ken Arrington -- Grayson; Kerry Howard -- Licking Valley; Landis Cornett; Mark Stallons -- Owen; Mickey Miller -- Nolin; Mike Williams -- Blue Grass; Paul Hawkins -- Farmers; Raymond Rucker; Ted Hampton; Ted Holbrook; Tim Eldridge; Tim Sharp - Salt River Electric; Wayne Stratton -- Shelby; William Shearer -- Clark
Cc:	Tony Campbell; Mike McNalley; Don Mosier; David Smart
Subject:	From Tony Campbell re: Amendment 3 Memo
Attachments:	A3 Load Loss Mitigation Discussion Final.docx

Sending on behalf of Tony Campbell

All:

Since South Kentucky gave us notice to exercise their rights under the MOU, we have had a number of CEO's contact us. Many have asked questions about the financial impacts to the remaining Owner Members. Mike McNalley and his team have been working on the potential cost implications of losing this 58 MW baseload block of power. Please remember this was done somewhat quickly, and we will continue to refine the data. In addition, please note that we will do everything possible to totally mitigate this loss of load, and will protect our Owner Members should it return at an inopportune time.

Regards,
Anthony "Tony" Campbell

President and CEO
Phone: 859-745-9313
Fax: 859-744-7053

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

EKPC SAFETY IS R.I.G.H.T.

East Kentucky Power Cooperative

Mitigation of Amendment 3 Load Loss

December 27, 2017

For this analysis I am using the SK Amendment 3 notice and their actual billings for the 12 months ending November 2017. The notice was for 58MW of load to be removed from the EKPC system, at an effective load factor of 100%.

South Kentucky Billing

EKPC billing differential to SK for the 12 months would have been a reduction of 508,000 MWh and $30.4 million over the 12 months. This includes a reduction of $28.5 million from Base Rates, an increase of $2.5 million from the FAC, and a reduction of $4.4 million in the ES. The base rate and FAC impacts should be taken together, for a net billing reduction of $26.0 million.

For SK, we calculate a reduced load factor on the EKPC system because they are removing 100% load factor MWs. SK's load factor in the 12 months of 2017 would have dropped from the actual 56.3% to only 43.5%; this would have resulted in an increased cost per MWh billed by EKPC of $6.07/MWh (from $68.95/MWh to $75.02/MWh). Because we do not have their new contract details it is impossible for us to calculate the net impact of their new contract on SK members.

Cost Shift and Mitigation

The load loss as a result of an Amendment 3 election will shift costs. EKPC will act promptly to mitigate that cost shift.

The cost shift consists of the fixed costs EKPC would no longer recover in base rates from SK, and the ES which would be "automatically" reallocated based on revenue to all members (including SK).

We estimate that the ES amount that would remain with SK is about $0.3 million, so approximately $4.1million would be reallocated to the other 15 owner-members.

EKPC's system is approximately half fixed cost and half variable cost (fuel, purchased power, etc). So of the base revenue loss ($26.0 million), about $13 million would be fixed and need to be recovered.

Thus, the total cost shift, without any mitigation, is approximately $17.1 million to the 15 owner members for the 12 month period ending November 2017.

Amendment3 (and SK) provides for a long notice period, which is necessary for EKPC to achieve the best mitigation of the load loss for its owner-members. This is important because it gives EKPC the time to develop and execute numerous options. Without the time to act, EKPC would have only two options: sales of the energy into PJM in the day-ahead and real-time market, and a base rate increase. For 2017, the energy market would have provided approximately \$5/MWh of margin, or \$2.3 million, leaving an unmitigated balance of \$14.8 million. Given EKPC's low margins this year, this might be large enough to tip us into a base rate increase, especially if we had no further mitigation options.

However, with time, more options unfold. These include participating in the PJM Intermediate Capacity Auctions (IA), the PJM Base (May) Capacity Auction (BRA), natural load growth, economic development, and special contracted loads. In the IA we might expect from \$800k to \$1.6 million of revenue in the first year, growing as the market firms and better prices are realized (three years out) in the BRA.

Load growth in our budget for 2018, which includes a bounce back to weather-normal as well as some real load growth, is projected at 1,388 MW and 974,217 MWh. If this is achieved, it is sufficient to absorb the loss of the SK load, although our EKPC results would be lower than projected (because we have their entire load in our budget). Because the notice period extends beyond the 2018 budget year, it is reasonable to conclude that EKPC can grow load sufficiently to offset the SK loss by the time their load actually leaves. Any load growth on SK's system also will directly benefit the EKPC system and all owner-members because their notice is for a fixed block of power which cannot grow – thus all load growth must be served under the wholesale power agreement.

A significant new load developed through economic development efforts could further mitigate the SK load loss. However to be valuable in this context that new load should be at tariffed rates and not heavily discounted so that it makes a full contribution to the fixed costs. A load such as the expansion of Gallatin, which is interruptible and does not contribute substantially to fixed costs, will not provide a material benefit in this context (it is obviously valuable in other ways).

Special load contracts (bi-lateral agreements) could possibly be negotiated. However the MW size (58) is odd, and it is likely we would have difficulty finding a good match at the size needed.

Finally, the SK notice is for a 20 year contract. We will mitigate the load loss for that period, and this strictly means that we will not have those resources immediately available to serve SK should they desire to return early – again a key reason for the long notice periods in Amendment 3.

Additional Load Loss (more Amendment 3 Notices)

Under Amendment 3, after SK's election, there are approximately 69.2 MW of potential load to be noticed across all owner-members. If some or all of these MWs are noticed soon, EKPC will follow similar mitigation plans. However, our "natural" load growth scenario will be insufficient to absorb all of the load loss by the time the notices are effective, so there likely would be some margin depression for a year or so. Other mitigation efforts might make up some of the shortfall, but we should expect some cost shifting in base rates, at least for a year or two.

All figures are estimates and we are continuing to refine these analyses.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

2. Assuming the Commission approves the transaction as proposed, and assuming further that EKPC raises its wholesale power rates, will SKRECC not also see increased wholesale power costs from EKPC as a result? If SKRECC so confirms, state whether that potential rate increase is reflected in SKRECC's projected savings set forth in numerical paragraph one of its application.

Response:

Reference is made to the response to Question 1. South Kentucky's analysis of the proposed transaction assumed that power cost from EKPC would increase over the term of the purchased power agreement at a rate of 2 percent per year, which is a lower rate of escalation than projected in EKPC's 20 year financial forecast.

Witness: Carter Babbit and Dennis Holt

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

3. State whether the projected savings set forth in numerical paragraph one include any and all projected costs SKRECC will incur as a result of becoming a PJM member and market participant.

   a. Reference the Holt testimony at p. 13, wherein he states that under SKRECC's proposal, EKPC will serve as SKRECC's agent to accomplish various market participant activities. Provide the costs SKRECC anticipates as part of this Application paying EKPC for performing these services.

   b. Regarding any costs SKRECC anticipates paying EKPC for performing services as a market participant, state whether those costs were included in SKRECC's cost-benefit analysis.

   c. Provide: (i) a discussion of the types of PJM costs for which SKRECC becomes responsible for upon PJM membership; and (ii) an estimate of all such costs associated with PJM membership and/or status as a market participant.

   d. Provide an estimate of cost penalties SKRECC would incur if it terminates its PJM membership.

Response:

a. $406,464.

b. Yes.

c. $1,500 application fee; $5,000 recurring annual fee.

d. None.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

4. Assuming the Commission approves the transaction as proposed, will SKRECC participate in PJM's capacity performance markets? Discuss in complete detail.

   a. If the response to this question is in the affirmative, discuss how SKRECC proposes to address the financial risk associated with potential PJM capacity performance market penalties that could be imposed if SKRECC is unable to dispatch its Alternate Source into PJM. Any discussion should reference and explain the December 19, 2017 letter from Morgan Stanley Commodities to SKRECC regarding "FINANCIAL CAPACITY CONFIRMANTION" (*sic*), wherein on page two (2) in describing the "product", the letter states, "This Transaction is not tied to or contingent upon, any specific generation unit(s) or that any specific generation unit(s) be operating or operational. MSCG does not represent or warrant that this financially-settled Product will satisfy any of SKRECC's RPM-imposed performance obligations to PJM."

   b. Discuss whether the financial capacity hedge of 68 MW discussed on p. 11 of the Holt testimony would mitigate any risk that potential PJM capacity performance market penalties may pose.

      (1) If SKRECC's response to subpart b., above is in the affirmative, explain why that hedge would only be in effect for 18 years of the 20-year proposal. Explain whether SKRECC intends to obtain a second hedge to cover the two years that would not be covered.

   c. Describe any costs SKRECC will or could incur in order to mitigate the financial risk associated with potential PJM capacity performance market penalties. Provide complete details, and state whether the costs SKRECC will or could incur in mitigating that risk were considered in SKRECC's cost-benefit analysis.

Response:

No. South Kentucky is not providing capacity to PJM.

a. Not applicable.

b. South Kentucky is not providing capacity to PJM, but rather is hedging future capacity purchases from the PJM market. Thus, South Kentucky does not anticipate exposure to capacity performance market penalties.

    1. No. The capacity auction for the first two years of the transaction has already been completed.

c. Reference is made to the response to 4 b.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
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5. Reference Application Exhibit 7, the Morgan Stanley Capital Group, Inc. ["Morgan Stanley"] confirmation letter dated December 19, 2017, regarding "Firm Physical Energy Confirmation," p. 5, no. 17 ("Environmental Change in Law"). Discuss the measures SKRECC can or might take to mitigate the financial risk associated with any additional environmental costs that Morgan Stanley may incur and pass on to SKRECC.

   a. Does SKRECC know whether any other utilities which have entered into contracts similar to the one proposed in the instant transaction have had to pay additional sums due to either changes in environmental law, or to "additional environmental costs" as that term is defined in section 23 of Application Exhibit 8, Morgan Stanley's confirmation letter dated December 19, 2017 regarding "Financial Capacity Confirmation"? Discuss in complete detail.

   b. Provide an explanation of what "additional environmental costs" SKRECC believes apply under this section and what risks are involved with these costs. Were any of these risks and costs considered by SKRECC? If so, where in the Application or testimony can they be located?

   c. If any such "additional environmental costs" become excessive, discuss: (i) what measures SKRECC could take to terminate the agreement; (ii) the penalties AND costs it would incur for doing so (including any penalties from PJM and the costs of capacity and energy moving forward); and (iii) the measures SKRECC could take to obtain replacement power.

Response:

South Kentucky recognizes that it faces the same or essentially similar risks whether it purchases power from Morgan Stanley, EKPC or any other energy provider with sound financial standing, and thus does not have a specific plan to mitigate "additional environmental costs". Changes in laws and regulations, for example, changes in environmental law, are applicable to PJM, as well as all its participants.

a. Due to the confidential nature of such contracts, South Kentucky does not know of specific situations where other utilities have, as a result of terms and conditions in a power supply agreement, incurred additional costs due to changes in environmental laws.

b. South Kentucky recognizes that it faces the same or essentially similar risks whether it purchases power from Morgan Stanley, EKPC or any other energy provider with sound financial standing. Such costs would be added to EKPC's costs at the same level for comparison to any other provider, and thus would cancel out any differences. The definition for Additional Environmental Costs can be found in the Financial Capacity Confirmation, Exhibit 8 page 7, Section 23, Additional Defined Terms, which lists possible costs. Note that the definition of Additional Environmental Costs is the same in the Firm Physical Energy Confirmation. See Exhibit 7, pages 5-6, Section 18.

c. South Kentucky recognizes that it faces the same or essentially similar risks whether it purchases power from Morgan Stanley, EKPC or any other energy provider with sound financial standing. Thus, South Kentucky has no basis to expect that such cost incurrence would become "excessive", relative to other sources of supply (including, but not limited to, supply from EKPC). The incurrence of such cost alone does not provide a basis to terminate the proposed transaction.

South Kentucky Rural Electric Cooperative Corporation
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6. Reference Application Exhibit 8, the Morgan Stanley Confirmation Letter dated December 19, 2017 regarding "Financial Capacity Confirmation" section no. 21 ("Special Provision Regarding Pricing Finality") which discusses the "unknown and unquantifiable" consequences resulting from the District of Columbia Circuit Court ruling in NRG Power Marketing, LLC vs. FERC (Case no. 15-1452, July 7, 2017) which in turn vacated, in part, and remanded to the Commission for further proceedings, two Commission orders conditionally accepting in part, and rejecting in part, PJM Interconnection, LLC's (PJM) proposed revisions to its minimum offer price rule (MOPR). Provide a discussion of the impact and ramifications that the FERC's order on remand, issued December 7, 2017 in FERC Docket ER13-535-004, will have on the proposed transaction.

Response:

In the above referenced Section 21 of Exhibit 8 to South Kentucky's Application, South Kentucky and Morgan Stanley agreed that the outcome of the above-referenced NRG proceeding could result in changes to the calculations of the Floating Price associated with the capacity hedge. The NRG proceeding involved specific requirements related to PJM's minimum offer price rule (MOPR) that could change depending on the ultimate outcome of the proceeding. South Kentucky and Morgan Stanley agreed that, in the event of any future action by FERC, in response to or contemplation of the NRG proceeding, that had the effect of altering the Floating Price, the Parties would revise the Floating Price in accordance therewith and that would be the Floating Price for purposes of the agreement. At this time, the prospect of revision to the Floating Price is unknown, as rehearing of FERC's order on remand was taken and it remains under consideration before FERC.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

7. Does the agreement with Morgan Stanley require SKRECC to pay any transmission costs associated with obtaining the Alternative Source power? If so: (i) discuss in detail and provide estimates of all such costs; and (ii) state whether such costs were included in SKRECC's cost-benefit analysis. If such costs were not included in any cost-benefit analysis, why were they not included?

Response:

No, South Kentucky is not required to pay any transmission costs specifically related to the Alternate Source. EKPC transmission service will be required, just as it is for the power South Kentucky currently receives from EKPC. EKPC transmission service is accessed through the PJM OASIS because EKPC is a part of PJM. That cost is included in the analysis.

Witness: Michelle Herrman

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

8. Reference the Herrman testimony, p. 11, wherein she states that SKRECC may be required to post significant collateral, and that if that should occur, SKRECC intends to fulfill that requirement by providing an additional line of credit to Morgan Stanley. State whether the potential costs for securing such an additional line of credit were considered in SKRECC's cost-benefit analysis.

   a. Does SKRECC agree that Commission approval would be necessary for any "additional line of credit?"

Response:

Yes, South Kentucky considered these potential costs (although given the expected immateriality, they were not factored into the cost-benefit analysis performed by EnerVision). South Kentucky would note that in the event the posting of collateral were required, it would expect to fulfill that requirement by providing a letter of credit to Morgan Stanley, which itself may be supported by an underlying line of credit. South Kentucky would emphasize, however, that such line of credit would not be pledged in any way to Morgan Stanley.

a. Yes, if the line of credit is for a period of time greater than 24 months.

Witness: Carter Babbit and William Steven Seelye

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

9. Reference the Master Power Purchase and Sale Agreement, "Other Changes," changes to Section 5.2.

   a. Provide a definition for "commercially reasonable manner" as used on lines 9-10 and in the context of this agreement.

   b. Provide the term and discount rate that will be used by the Non-Defaulting Party under this section.

   c. Explain the sentence, "It is expressly agreed that neither Party shall be required to enter into a replacement transaction in order to determine a market price."

   d. Does SKRECC agree that if it is the Non-Defaulting Party, as defined in this agreement, it will have to replace both energy and capacity upon an early termination? If so, why does SKRECC believe it is not prudent to ensure that the early termination amount makes SKRECC and its members whole as to replacement energy and capacity expense?

Response:

a. The phrase "commercially reasonable manner" is not specifically defined in the Master Power Purchase and Sale Agreement. In general, "commercially reasonable manner" is a standard of reasonableness commonly used in wholesale power contracts that refers to a level of effort which, in the exercise of reasonable judgment in light of the facts known or which should be known with the exercise of reasonable care under the circumstances existing at the time a decisions is made, can be expected to accomplish the desired result within a reasonable time and at reasonable cost in accordance with generally accepted practices in the electric industry.

b. The referenced term would be the remaining term of the transaction. Section 5.2 does not specify the discount rate that will be used by the Non-Defaulting Party under this section. Such discount rate would reflect the standard of reasonableness and the prevailing interest rates at the time of any default.

c. Market prices are transparent in the PJM market and thus a replacement transaction is not required to determine the market price in which the parties are kept whole.

d. No, South Kentucky will not have to replace energy and capacity, as it is not purchasing capacity from Morgan Stanley as part of the transaction. South Kentucky would continue to purchase capacity from the PJM market as needed; however, it could lose the benefit of the financial capacity hedge in an early termination.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

10. What actions has SKRECC taken to reduce the impact of an early termination by MSCG in the event MSCG chooses to terminate early or defaults? What does SKRECC believe the most likely causes of default or early termination are for MSCG (i.e. market risk, change in law)?

Response:

Morgan Stanley can only terminate the agreement early if South Kentucky has defaulted (and has not cured such default). Likewise, South Kentucky can terminate the agreement early if Morgan Stanley has defaulted (and has not cured such default). There is no other opportunity for a party to terminate the agreement early. In the event Morgan Stanley defaults and South Kentucky elected to terminate the agreement early, Morgan Stanley would be required to make South Kentucky whole pursuant to Article 4: REMEDIES FOR FAILURE TO DELIVER/RECEIVE and Article 5: EVENTS OF DEFAULT; REMEDIES. Moreover, to the extent Morgan Stanley is required to post performance security (cash or a letter of credit) in the event its exposure to South Kentucky is above specific thresholds based upon Morgan Stanley's creditworthiness, this performance security ensures that South Kentucky has an avenue to collect damages in the event of default by Morgan Stanley at a time when Morgan Stanley is incapable of paying its debts (by exercising South Kentucky's rights to draw upon the cash or letter of credit held as collateral). At this time, South Kentucky does not anticipate a default or early termination by Morgan Stanley.

Witness: Carter Babbit

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

11. Does SKRECC agree that in the event MSCG elects to terminate the agreement early due to increased market risks, such as changes to the forward price curve of electricity that SKRECC may have to replace power in the same market?

Response:

Morgan Stanley does not have the right to terminate the agreement early due to increased market risks. In the event Morgan Stanley defaults under the agreement because of future market risks that materialize, Morgan Stanley has to make South Kentucky whole for the remaining term of the transactions pursuant to the damages provisions discussed in response to Questions 9 and 10.

Witness: William Steven Seelye

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

12. If the Application of South Kentucky is approved as filed, provide all studies, estimates or projections of the effect on the base rates and environmental surcharges of the fifteen other member distribution cooperatives of EKPC.

Response:

South Kentucky has not conducted any studies or produced any estimates or projections regarding the potential effect of the proposed transaction on the base rates and environmental surcharges of the fifteen other member distribution cooperatives of EKPC. Reference also is made to the response to Question 1.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

13. If the Application of South Kentucky is approved as filed, then provide all studies, estimates or projections of the effect on the financial credit metrics and borrowing costs of EKPC.

Response:

South Kentucky has not conducted any studies or produced any estimates or projections regarding the potential effect of the proposed transaction on the financial credit metrics and borrowing costs of EKPC as a result of South Kentucky's proposed transaction as described in its Application. Reference also is made to the response to Question 1.

Witness: William Steven Seelye

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

14. If the Application of South Kentucky is approved as filed, then provide all studies, estimates or projections of the effect on the generation reserve margin of EKPC.

Response:

South Kentucky has not conducted any studies or produced any estimates or projections regarding the potential effect of the proposed transaction on the generation reserve margin of EKPC as a result of South Kentucky's proposed transaction as described in its Application. Reference also is made to the response to Question 1.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

15. Provide South Kentucky's total retail sales for the most recent five years.

Response:

2017 - 1,200,951 MWh
2016 - 1,252,206 MWh
2015 - 1,270,980 MWh
2014 - 1,310,882 MWh
2013 - 1,246,353 MWh

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

16. Provide South Kentucky's system peak demands for the most recent five years.

Response:

2017 - 353 MW
2016 - 352 MW
2015 - 459 MW
2014 - 447 MW
2013 - 321 MW

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

17. Under the November 13, 2003 Amendment No. 3 and the July 23, 2015 Memorandum of Understanding, for the most recent year where data is available, what is the maximum amount of MW (capacity) that can be purchased from Alternative Sources by South Kentucky?

Response:

According to EKPC's calculations given in a PowerPoint presentation dated February 13, 2018 ("EKPC Presentation"), the maximum capacity available for South Kentucky to purchase from Alternate Sources is 61.9 MW, less the 58 MW that were included in the notice dated November 28, 2017. See Attachment AG#17.

EKPC 5% Limit

Owner-Member Cooperative	EKPC CP (MW) for Month of Feb 2015-Jan 2016	Feb 2016-Jan 2017	Feb 2017-Jan 2018	Average	5% Limit
Big Sandy	89.5	56.9	74.3	73.6	3.7
Blue Grass	410.9	324.4	382.2	372.5	18.6
Clark	154.0	113.6	139.4	135.7	6.8
Cumberland Valley	158.3	109.6	141.3	136.4	6.8
Farmers	136.4	115.9	138.4	130.2	6.5
Fleming Mason	196.9	166.9	189.1	184.3	9.2
Grayson	85.2	57.6	72.7	71.9	3.6
Inter-County	171.1	134.1	158.6	154.6	7.7
Jackson	325.6	230.2	293.6	283.2	14.2
Licking Valley	88.6	58.7	75.0	74.1	3.7
Nolin	211.1	199.1	215.5	208.6	10.4
Owen	347.4	350.7	423.8	374.0	18.7
Salt River	314.4	262.0	306.4	294.3	14.7
Shelby	120.5	99.6	113.9	111.3	5.6
South Kentucky	458.9	353.4	426.2	412.9	20.6
Taylor	159.4	139.1	157.0	151.8	7.6
Total	3,428.1	2,771.8	3,307.4	3,169.1	158.5

A3 Allotments, Based on Data Through January 2018

Owner-Member Cooperative	Owner-Member Peak (MW) Feb 2015-Jan 2016	Feb 2016-Jan 2017	Feb 2017-Jan 2018	Average	5% Election	15% Election
Big Sandy	89.5	58.8	74.3	74.2	3.7	11.1
Blue Grass	410.9	324.4	383.2	372.8	18.6	55.9
Clark	154.0	113.6	140.1	135.9	6.8	20.4
Cumberland Valley	158.3	110.0	141.3	136.5	6.8	20.5
Farmers	136.8	115.9	138.4	130.3	6.5	19.6
Fleming Mason	198.0	179.7	189.1	188.9	9.4	28.3
Grayson	85.2	58.3	72.7	72.1	3.6	10.8
Inter-County	171.1	134.4	158.6	154.7	7.7	23.2
Jackson	327.7	232.2	293.6	284.5	14.2	42.7
Licking Valley	88.6	60.6	76.6	75.3	3.8	11.3
Nolin	230.4	199.1	216.1	215.2	10.8	32.3
Owen	430.9	401.5	447.5	426.6	21.3	64.0
Salt River	316.1	262.0	306.4	294.8	14.7	44.2
Shelby	120.5	101.6	113.9	112.0	5.6	16.8
South Kentucky	458.9	353.4	426.2	412.9	20.6	61.9
Taylor	160.2	139.1	157.0	152.1	7.6	22.8
Total	3,537.0	2,844.5	3,335.0	3,238.8	161.9	

A3 Balances as of January 2018

Owner-Member Cooperative	Allocation %	Allocation MW	5% Balance MW	Pro-rata Share of Balance MW
Big Sandy	5%	3.7	3.7	1.8
Blue Grass	5%	18.6	18.6	9.2
Clark	5%	6.8	6.8	3.4
Cumberland Valley	5%	6.8	6.8	3.4
*Farmers**	*5%*	*6.5*	*1.9*	1.0
*Fleming Mason**	*5%*	*9.4*	*8.0*	4.0
Grayson	5%	3.6	3.6	1.8
Inter-County	5%	7.7	7.7	3.8
*Jackson**	*5%*	*14.2*	*0.1*	0.1
*Licking Valley**	*5%*	*3.8*	*3.5*	1.7
Nolin	5%	10.8	10.8	5.3
*Owen**	*5%*	*21.3*	*0.0*	0.0
*Salt River**	*5%*	*14.7*	*0.0*	0.0
Shelby	5%	5.6	5.6	2.8
*South Kentucky**	*15%*	*61.9*	*3.9*	1.9
Taylor	5%	7.6	7.6	3.8
Total			88.8	44.1

** indicates project in place or in process.*

Total projects MW cannot exceed 5% of the 3 year average of EKPC CP, which is currently 158.5 MW.

Feb 2015-Jan 2016 Peak Occurred Feb 2015
Feb 2016-Jan 2017 Peak Occurred Jan 2017
Feb 2017-Jan 2018 Peak Occurred Jan 2018

Noticed Projects

Owner-Member	Project	Notice Given	MW	Delivery
Jackson	Irvine LFGTE		1.6	10/2013
Jackson	Dupree Energy Sys		1.0	3/2015
Farmers	Federal Mogul DG		3.6	2005
Farmers	Glasgow LFGTE		1.0	11/2015
Salt River	Lock 7		2.0	2013
Owen	Owen Office		2.0	2016
South Kentucky	PJM/Market	12/2018	58.0	6/2019
Salt River	PJM/Market	2/2018	12.7	9/2019
Owen	PJM/Market	2/2018	19.3	9/2019
Fleming-Mason	LFG PPA	2/2018	1.4	10/2018
Licking Valley	Solar Installation	2/2018	0.3	5/2018
Jackson	Lock 12	2/2018	1.7	12/2018
Jackson	Lock 14	2/2018	1.7	12/2019
Jackson	PJM/Market	2/2018	8.0	9/2019

Total Projects 114.4
Not to Exceed 158.5 MW
Remaining 44.1

Witness: Dennis Holt

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

18. Under the November 13, 2003 Amendment No. 3 and the July 23, 2015 Memorandum of Understanding, for the most recent year where data is available, what is the maximum amount of MW (capacity) that can be purchased from Alternative Sources by all sixteen member owners?

Response:

According to EKPC's calculations in the EKPC Presentation, the maximum amount is 158.5 MW. See Attachment AG#17.

Witness: Dennis Holt

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

19. Under the November 13, 2003 Amendment No. 3 and the July 23, 2015 Memorandum of Understanding, for the most recent year where data is available, what is the maximum amount of MWh (energy) that can be purchased from Alternative Sources by South Kentucky?

Response:

Neither Amendment 3 nor the MOU prescribe MWh (energy) limits. That said, using EKPC's calculations in the EKPC Presentation, and assuming a 100 percent load factor, South Kentucky's maximum Alternate Source designation translates to approximately 542,244 MWh per year. See Attachment AG#17.

Witness: Dennis Holt

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Attorney General's First Request for Information

20. Under the November 13, 2003 Amendment No. 3 and the July 23, 2015 Memorandum of Understanding, for the most recent year where data is available, what is the maximum amount of MWh (energy) that can be purchased from Alternative Sources by all sixteen member owners?

Response:

Neither Amendment 3 nor the MOU prescribe MWh (energy) limits. That said, using EKPC's calculations in the EKPC Presentation, and assuming a 100 percent load factor, the sixteen member owners' maximum Alternate Source designation translates to approximately 1,388,460 MWh per year. See Attachment AG#17.