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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 EAST KENTUCKY POWER COOPERATIVE, INC. FIRST INFORMATION REQUEST

Respectfully submitted,

Scott B. Grover (pro hac admission pending)
S. Michael Madison (pro hac admission pending)
Balch & Bingham, LLP
1710 Sixth Ave. North
Birmingham, Alabama 35203
(205) 251-8100
(205) 488-5660
sgrover@balch.com
mmadison@balch.com

Matthew R. Malone
William H. May, III.
Hurt, Deckard & May PLLC
127 West Main Street
Lexington, Kentucky 40507
(859) 254-0000 (office)
(859) 254-4763 (facsimile)
mmalone@hdmfirm.com
bmay@hdmfirm.com

Counsel for the Petitioner,

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:

Kent A. Chandler, Esq.
Rebecca W. Goodman, Esq.
ASSISTANT ATTORNEYS GENERAL
Kent.Chandler@ky.gov
Rebecca.Goodman@ky.gov

W. Patrick Hauser, Esq.
W. PATRIC HAUSER, PSC
phauser@barbourville.com

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
mkurtz@bkllawfirm.com

James M. Crawford, Esq.
Ruth H. Baxter, Esq.
Jake A. Thompson, Esq.
CRAWFORD & BAXTER, P.S.C.
Jcrawford@cbkylaw.com
Rbaxter@cbky.com
Jthompson@cbky.com

W. Jeffrey Scott, Esq.
Brandon M. Music, Esq.
W. JEFFREY SCOTT, P.S.C.
wjscott@windstream.net

Mark David Goss, Esq.
Goss Samford, PLLC
22365 Harrodsburg Road, Suite B325
Lexington, Kentucky 40504
mdgoss@gosssamfordlaw.com

James M. Miller, Esq.
R. Michael Sullivan, Esq.
SULLIVAN MOUNTJOY, PSC
jmiller@smlegal.com
msullivan@smlegal.com

John Doug Hubbard, Esq.
Jason P. Floyd, Esq.
FULTON, HUBBARD & HUBBARD, PLLC
jdh@bardstown.com
jpf@bardstown.com

Clayton O. Oswald, Esq.
TAYLOR, KELLER & OSWALD, PLLC
coswald@tkolegal.com

Robert Spragens, Jr., Esq.
SPRAGENS & HIDGON, P.S.C.
rspragens@spragenhigdonlaw.com

David T. Royse, Esq.
RANDSDELL ROACH & ROYSE PLLC
david@rrrfirm.com

David A. Smart, Esq.
Roger R. Cowden, Esq.
EKPC
David.smart@ekpc.coop
Roger.cowden@ekpc.coop

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: : 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

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

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

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:

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

Michelle D. Herrman, being duly sworn, states that she 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 her knowledge, information and belief, formed after reasonable inquiry.

Michelle D. Herrman

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

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

James Adkins, 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.

James R. Adkins

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

Ashley Kerr
Notary Public

My commission expires 8/31/19.

ASHLEY KERR
NOTARY PUBLIC
STATE AT LARGE, KENTUCKY

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

1. Please provide the following information concerning EnerVision, Inc. ("EnerVision"):

    a. When did South Kentucky begin utilizing EnerVision's services?

    b. How was EnerVision selected to provide consulting services for South Kentucky?

Response:

Objection: South Kentucky objects to this request, as the requested information is not relevant to the subject matter of this proceeding or any related interest of EKPC (not being a member of South Kentucky). In this respect, the information encompassed by this request does not bear on the Commission's review of and action on South Kentucky's application or the relief requested therein.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

2. If the Commission approves the proposed Master Power Purchase and Sale Agreement ("Agreement"), will EnerVision continue to provide consulting services to South Kentucky related to the Agreement?

Response:

Objection: South Kentucky objects to this request, as the requested information is not relevant to the subject matter of this proceeding or any related interest of EKPC (not being a member of South Kentucky). In this respect, the information encompassed by this request does not bear on the Commission's review of and action on South Kentucky's application or the relief requested therein.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

3. Please provide the following information concerning South Kentucky's request for proposals ("RFP") which sought to identify additional potential counterparties capable of providing competitively-priced wholesale power at the desired quantity of 58 MW:

   a. How many of the RFP responses were considered to be responsive to South Kentucky's request and were evaluated?

   b. Describe the evaluation process for the RFP responses and explain the involvement of South Kentucky and EnerVision in the evaluation process.

Response:

a. A total of six different bidders submitted responses to the RFP. They were all considered to be responsive and were evaluated.

b. First, South Kentucky estimated the base case costs with all load served by EKPC. Next South Kentucky estimated costs under the combination of load served by the Alternate Source with the remaining load served by EKPC for each response. South Kentucky ensured that all costs components of each proposal were included in the analysis and that all proposals were evaluated in a comparable manner. In addition to quantifiable results of the analysis, non-quantifiable attributes (such as reputation and creditworthiness of the potential counterparty) and risks were evaluated to complete the analysis. Based on results of the analysis, the Board of Directors selected a short list of proposers with whom to continue discussions and start contract negotiations.

   EnerVision provided South Kentucky with the proposals received and worked with South Kentucky management team to review and evaluate each proposal. Regular updates were provided to both the South Kentucky management team and the Board of Directors throughout the evaluation process.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

4. In two previous cases where the applicant utility sought confidential protection of the cost of power contracts, the Commission has denied confidential treatment. The Commission stated, among other reasons, that the utility's customers have a right to know the financial consequences of the proposal since those customers will be required to pay for the costs of the project or contract.[1] Concerning the request for confidential treatment of certain pricing terms and sensitive information included in the Agreement, please explain what distinguishes this Application from the previous applications where confidential treatment was denied.

Response:

Reference is made to South Kentucky's Motion for Confidential Treatment.

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[1] *See In the Matter of Application of Kentucky Power Company for Approval of the Terms and Conditions of the Renewable Energy Purchase Agreement for Biomass Energy Resources Between the Company and EcoPower Generation-Hazard LLC; Authorization to Enter into the Agreement; Grant of Certain Declaratory Relief; and Grant of All Other Required Approvals and Relief*, Order, Case No. 2013-00144, p. 22 (Ky. P.S.C., Oct. 10, 2013) and *In the Matter of Application of East Kentucky Power Cooperative, Inc. for an Order Declaring the Glasgow Landfill Gas to Energy Project to be an Ordinary Extension of Existing Systems in the Usual Course of Business and a Joint Application of Farmers Rural Electric Cooperative Corporation and East Kentucky Power Cooperative, Inc. for Approval to Enter Into a Ten Year Purchased Power Agreement and Approval of a Special Contract*, Order, Case No. 2014-00292, p. 5 (Ky. P.S.C., Mar. 30, 2015).

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

5. Please refer to Exhibit 5 of the Application, the Agreement, Article 10.8 – General.

    a. Please provide examples of the actions or events that would be considered "Regulatory Events" as used in the Agreement.

    b. The Agreement states that if a Regulatory Event occurs, the Parties shall use their best efforts to reform the Agreement in order to give effect to the original intention of the Parties. Please indicate whether these "best efforts" could include adjusting the amount of power to be purchased under the Agreement by South Kentucky and/or the price to be paid for such power.

Response:

a. By way of example, if the Kentucky Supreme Court or the U.S. Court of Appeals for the Sixth Circuit declared that Section 10.7 of the Master Agreement was unlawful and could not be enforced, the Agreement would be deemed to be modified to eliminate the provision (and any cross-reference to it), with the other provisions remaining in effect.

b. Absent the occurrence of a Regulatory Event, it is difficult to speculate what the best efforts response might be. One example that might be considered a Regulatory Event that might necessitate an adjustment to the quantity set forth in the agreement would be if South Kentucky had agreed to purchase 100 MW of Firm LD energy, and upon an application to the Commission, the Commission determined that such amount was not lawfully consistent with Amendment 3 and the MOU, but that 58 MW would be acceptable. In such a case, "best efforts" to reform the agreement to give effect to the original intent of the parties might include a reduction in the stated quantity from 100 MW to 58 MW.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

6. Please refer to Exhibit 5 of the Application, the Agreement, Schedule P. Please explain the difference between the following terms as used in the Agreement:

    a. The Delivery Point.

    b. The Receiving Transmission Provider.

    c. The Designated Interface. If possible, please identify this entity by name.

    d. The Alternate Designated Interface. If possible, please identify this entity by name.

Response:

The Agreement is a document developed for use in a wide variety of bilateral electricity transactions to be conducted in a wide variety of environments. As such, the terms listed are not applicable to every situation or transaction. South Kentucky will respond to this request as specifically as possible with regard to the Alternate Source.

The identified terms are all potential descriptions related to transaction delivery obligations, depending on the nature and location of the transactions.

a. The Delivery Point is the point at which the Seller (Morgan Stanley) delivers and the Buyer (South Kentucky) receives the energy under the transaction. For the Alternate Source, the Delivery Point is "EKPC Residual Aggregate (EKPC_Resid_AGG) PJM PnodeID 1127872598."

b. This definition is not applicable to the transactions. Rather, it is only applicable to the "Into________, Seller's Daily Choice" product under Schedule P. South Kentucky is purchasing the Firm LD product and a separate capacity hedge. It has not purchased, and is not seeking approval of, the "Into _____, Seller's Daily Choice" product.

c. This definition is not applicable to the products being purchased by South Kentucky, as it is only applicable to the "Into ______, Seller's Daily Choice" product. See also response to Question 6 b.

d. This definition is not applicable to the products being purchased by South Kentucky, as it is only applicable to the "Into ______, Seller's Daily Choice" product. See also response to Question 6 b.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

7. Please refer to Exhibit 5 of the Application, the Agreement, Schedule P, Section 1 – Prescheduling and Notification. Please explain why the prescheduling deadline is stated as Central Prevailing Time instead of Eastern Prevailing Time. Exhibit 7 of the Application, the Firm Physical Energy Confirmation, Section 7 – Delivery Period, states the delivery times as Eastern Prevailing Time.

Response:

The referenced provision is not applicable to the transactions under the agreement. See also the response to Question 6 b.

Witness: Carter Babbit

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

8. Please refer to Exhibit 5 of the Application, the Agreement, Schedule P, Section 6 – Multiple Parties in Delivery Chain Involving a Designated Interface. Please provide the following information concerning the power that South Kentucky has contracted to purchase from Morgan Stanley Capital Group Inc. ("Morgan Stanley").

   a. Will the power be originally generated by assets physically located within the Commonwealth of Kentucky? If no, please indicate the location of the generating assets associated with this transaction.

   b. Does Morgan Stanley own the generating assets that will be providing the power sold to South Kentucky or does Morgan Stanley only have the contractual right to resell this power? Also, are the owners of the generating assets subject to the jurisdiction of the Commission?

   c. Please indicate whether the generating assets are coal fired, natural gas fired, nuclear, hydro, or renewables.

   d. Please explain the financial impact to South Kentucky should Morgan Stanley fail to deliver physical energy from such asset or assets during a PJM Interconnection, LLC ("PJM") Performance Assessment Hour event. Please include in the explanation whether South Kentucky, its Board, and EnerVision considered the possibility of such an event.

   e. For purposes of this question, please assume the following. There are no Morgan Stanley owned or controlled generating assets involved in the proposed transaction, and PJM declares a Performance Assessment Hour or Hours per its Capacity Performance rules that impacts EKPC as a result of any EKPC owned-asset forced outages during the period. Please explain whether South Kentucky considered what the financial implications of such an event might be on South Kentucky and the remaining owner-members. Please include with the explanation whether South Kentucky should expect to pay an increased pro-rata share of any resulting financial obligations incurred as a result of such an event.

Response:

Note that the provision referenced in the question is not applicable to the transactions under the agreement.

a. The Alternate Source is not tied to, or contingent upon, any specific generation unit(s) or that any specific generation unit(s) be operating or operational.

b. See a. above.

c. See a. above.

d. This question is not applicable based on a. above.

e. The situation described would not impact the delivery obligation of Morgan Stanley for the Alternate Source and, as such, the financial implications of such an event were not considered as part of the analysis that led to the Alternate Source selection. Any amount to be paid to EKPC by South Kentucky would be based on EKPC's capacity and energy costs as stated in the MOU Section 5 E (i), page 8.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

9. Please refer to Exhibit 6 of the Application, the Collateral Annex to the Agreement including Paragraph 10. Please provide the following information concerning the Party A Collateral Threshold:

   a. Explain why "Threshold Amounts" were established for calendar years 2017 and 2018 when the transaction is not to begin until April 2019.

   b. Please state the formulas for the calculation of the Times Interest Earned Ratio ("TIER") and the Debt Service Coverage Ratio referenced under "Credit Event".

   c. Explain the significance of a reduction of 13,400 in South Kentucky members as referenced under "Regulatory Event". Also, please explain how this level was determined.

Response:

a. While the contract does not have a delivery date until June 2019, the contract was signed in December 2017. Assuming that the conditions subsequent are met, there would be an obligation under the contract dating back to the signing of the contract. (For example, were Morgan Stanley to default prior to the start date, South Kentucky's interests would be protected.)

b. These formulas are consistent with the loan covenant requirements of the Rural Utilities Service.

   1. TIER = (Patronage capital or margins of the Mortgagor and Interest Expense on Total Long-Term Debt of the Mortgagor) divided by the (Interest Expense on Total Long-Term Debt of the Mortgagor).

   2. Debt Service Coverage = (Patronage Capital or Margins of the Mortgagor and Interest Expense on Total Long Term Debt of the Mortgagor and Depreciation & Amortization Expense of the Mortgagor) divided by the (Total sum of all payments of principal and interest on Total Long-Term Debt).

3. This was added at the request of Morgan Stanley and agreed to by South Kentucky.

Witness: Dennis Holt

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

10. Please refer to Exhibit 7 of the Application, the Firm Physical Energy Confirmation, Section 12 – PJM Arrangements and Settlements. Please provide the following information concerning South Kentucky seeking membership in the PJM as a Market Participant:

    a. Describe the status of South Kentucky's application to become a Market Participant in PJM and whether it intends to be a signatory to PJM's Reliability Assurance Agreement, Operating Agreement, and Open Access Transmission Tariff.

    b. When does South Kentucky expect a final decision on its application?

    c. Describe the status of South Kentucky's filing with PJM of a Declaration of Authority.

Response:

a. South Kentucky is in ongoing discussions with EKPC on this issue and is actively exploring whether EKPC, Morgan Stanley or some other party can act as agent for South Kentucky as a Market Participant in PJM.

b. See response to a.

c. See response to a.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

11. Please refer to Exhibit 7 of the Application, the Firm Physical Energy Confirmation, Section 14 – Conditions Subsequent. Please describe the status of the request to the Rural Utilities Service seeking approval or consent to the terms of the Agreement.

Response:

South Kentucky received approval from the Rural Utilities Service for the Master Power Purchase and Sale Agreement with Morgan Stanley on January 30, 2018.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

12. Please refer to Exhibit 16 of the Application, the Direct Testimony of Mr. Dennis Holt, page 11. South Kentucky has contracted with Morgan Stanley for 58 MW of firm energy for 20 years beginning June 1, 2019 and a financial capacity hedge of 68 MW for 18 years beginning June 1, 2021.

    a. Please explain the purpose and benefits to South Kentucky of the 18-year financial capacity hedge instrument.

    b. Please describe the risks South Kentucky could be exposed to during the two-year period between June 1, 2019 and June 1, 2021 when the financial capacity hedge instrument is not in effect.

Response:

a. The purpose of a financial capacity hedge is to mitigate the risk of future price uncertainty in the PJM capacity market in order to avoid large increases in prices due to market fluctuations and unforeseen market price escalations.

b. The capacity prices are already determined in the PJM market for the years in question, therefore, the financial capacity hedge is unnecessary to protect against market fluctuations and unforeseen market price escalations in those years.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

13. Please refer to Exhibit 17 of the Application, the Direct Testimony of Mrs. Michelle Herrman ("Herrman Testimony"). Please provide the five financial ratios shown on page 4 of the Herrman Testimony for calendar years 2013 through 2017. In addition, please provide the TIER excluding generating and transmission capital credits for calendar years 2013 through 2017.

Response:

Financial Ratios

Years	TIER	OTIER	DSC	ODSC	MDSC	TIER (No G&T)
2017 *	2.46	1.00	1.86	1.29	1.29	1.26
2016	2.54	1.25	1.97	1.32	1.44	1.49
2015	2.63	1.20	2.05	1.29	1.38	1.41
2014	3.16	1.68	2.47	1.63	1.71	1.87
2013	2.77	1.61	2.23	1.57	1.65	1.78

(* As provided based upon 11 months of 2017 actual and 1 month of 2016 actual)

Witness: Michelle Herrman

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

14. Please refer to Exhibit 17 of the Application, the Herrman Testimony, page 8, lines 12 through 18.

    a. Please explain why Mrs. Herrman cites the historical cost per MWH from 2014 to 2016 when on page 6 the historical cost per MWH is provided from 2010 through 2017. Please explain why Mrs. Herrman cites the historical cost per MWH from 2014 to 2016 when on page 6 the historical cost per MWH is provided from 2010 through 2017.

    b. On page 6 of the Herrman Testimony, it is stated that the historical costs include fuel and environmental costs. However, at lines 16 and 17 of page 8, it is stated that the projected 2020 contract year cost excludes environmental surcharge and fuel adjustment costs. Please explain why it is reasonable to compare the projected cost in the 2020 contract year with the historical cost when one includes environmental and fuel costs and the other does not.

    c. Please provide the historical cost per MWH from 2010 through 2017 excluding the fuel adjustment costs and the environmental surcharge.

Response:

a. The historical cost per MWh from 2010 through 2017 is cited on Page 7 of the Herrman Testimony. Per the discussion on page 7 of the Testimony, the test year in South Kentucky's last general rate case was for the twelve-month period ending September 30, 2010. Because the costs in effect in 2010 were evaluated as the basis of South Kentucky's current rates, the wholesale power expense going back to 2010 was believed to be relevant in the listing on page 7.

   The discussion on Page 8, beginning on line 6, was focused on how the proposed transaction will impact South Kentucky's current and future wholesale power purchase expenses. The look-back period of three years was thought to be relevant to this discussion question. If the look-back period had been extended back to EKPC's last general rate case that went into effect in 2011, the decrease in wholesale power purchase expenses would still remain the same, as the range of South Kentucky's historical cost per MWh from EKPC for the years 2011 to 2017 results in the same range of $68.40 to $73.08.

b. The wholesale power cost adders from EKPC add to the base cost of the power provided by EKPC and are passed on directly to the member consumer through South Kentucky and are reimbursed back to EKPC. Morgan Stanley's base power cost already includes those costs attributed to fuel and current environmental costs. Fuel costs to South Kentucky will remain constant over the life of the contract with Morgan Stanley and any changes in environmental costs would occur only if there is a change in Environmental Law or Tax Law as referenced in Exhibit 7, Paragraph 17 of the application.

c. The South Kentucky's historical cost per MWh from 2010 to 2017 excluding the adders for fuel adjustment costs and the environmental surcharge are as follows:

Year	2010	2011	2012	2013	2014	2015	2016	2017
Cost per MWh Purchased ($) (No adders)	65.8153	66.8112	64.1651	63.8257	63.7788	64.8234	63.4411	63.6669

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

15. Please refer to Exhibit 17 of the Application, the Herrman Testimony, page 11, lines 12 through 21. Concerning securing either a master line of credit or a line of credit from which a subordinate letter of credit could be drawn:

a. Please provide the estimated annual cost of securing and maintaining a master line of credit at the levels required by the Agreement.

b. Please provide the estimated annual cost of securing and maintaining a line of credit from which a subordinate letter of credit could be drawn at the levels required by the Agreement.

c. Please describe whether the estimated annual costs of either line of credit option were incorporated into South Kentucky's net present value analysis of the proposed Agreement. If not included, please explain why the estimated annual costs were excluded.

Response:

a. South Kentucky has not considered a master line of credit option. However, it has considered a master letter of credit. While costs are not finalized, a master letter of credit is estimated to have an annual cost of 15 basis points.

b. The estimated annual cost paid to a lender for securing and maintaining a line of credit is zero. Costs associated with a line of credit are only incurred when funds are drawn on a line of credit. Those costs are determined based on the prevailing interest rate at the time drawn. South Kentucky does not intend to draw down funds from a line of credit. Subordinate letters of credit drawn are estimated to have an annual cost of 50 to 75 basis points.

c. No costs were included in South Kentucky's analysis for a line of credit, as the costs associated with a line of credit are expected to be zero. Any annual costs associated with a master letter of credit or subordinate letters of credit were considered to be immaterial.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Response to East Kentucky Power's First Data Request

16. Please refer to Exhibit 17 of the Application, the Hermann Testimony, page 13, lines 17 through 23.

a. Please describe any analyses performed by South Kentucky that supports its assumptions that the pass-through costs or credits for the fuel adjustment clause ("FAC") and the environmental surcharge pass-through costs would be reduced?

b. If no analyses were ever performed, please explain the basis for South Kentucky belief that these costs would be reduced?

c. Please describe when South Kentucky believes the change in the FAC and environmental surcharge related to the proposed power would be reflected in the bills 1) South Kentucky receives from EKPC and 2) customers' bills received from South Kentucky?

<u>Response</u>:

a. South Kentucky has performed no such analyses.

b. Because South Kentucky would be purchasing less energy from East Kentucky subject to the FAC and Environmental Surcharge costs or credits, South Kentucky's total costs or credits for the FAC and Environmental Surcharge would be reduced.

1) The change in EKPC's fuel and environmental costs would be reflected in the first month during which South Kentucky takes power under the proposed transaction; but, in accordance with EKPC's FAC and Environmental Surcharge, the FAC and Environmental Surcharge factors would be billed by EKPC to South Kentucky in the second succeeding month.

2) The fuel and environmental costs billed by EKPC to South Kentucky in accordance with 1), above, would be reflected in the costs for South Kentucky during the month in which they are billed; but, in accordance with South Kentucky's FAC and Environmental Surcharge, the factors would be billed to South Kentucky's customer in the second succeeding month after incurring the purchased power costs billed by EKPC.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
East Kentucky Power Cooperative, Inc.'s First Request for Information

17. For the following hypothetical FAC example, please assume the following values:
- The current month fuel costs, F(m), is $25,000,000.
- The current month energy sales, S(m), is 1,000,000,000 kWh.
- The fuel costs incorporated into base energy rates is $0.02776 / kWh.
- The reduction in kWh sales associated with the South Kentucky 58 MW power purchase is 40,000,000 kWh.

a. Would South Kentucky agree that the current average fuel cost in this example, F(m) / S(m), would be $0.02500 / kWh and the FAC billing factor for the month would be ($0.00276) / kWh?

b. Would South Kentucky agree that after taking into consideration the reduction in kWh sales due to the South Kentucky power purchase, in this example F(m) / S(m) would be $0.02604 / kWh and the FAC billing factor would be ($0.00172) / kWh?

c. Would South Kentucky agree that, all other things being equal, a reduction in the FAC billing factor from ($0.00276) / kWh to ($0.00172) / kWh actually reflects an increase in the power bill from EKPC, as the FAC billing factor credit has been reduced?

d. Would South Kentucky agree that if EKPC's energy kWh sales to South Kentucky were reduced, there would likely be a related reduction in the variable components of the monthly fuel costs?

e. Would South Kentucky agree that to achieve the average fuel costs originally determined in this example of $0.02500 / kWh, the monthly fuel costs would need to be reduced by $1,000,000 [($25,000,000 - $1,000,000) / (1,000,000,000 kWh – 40,000,000 kWh) = $0.02500 / kWh]?

f. Based on this hypothetical, would South Kentucky agree that if the reduction in monthly fuel costs associated with the lower kWh sales were less than $1,000,000, the adjusted average monthly fuel costs would be higher and consequently the FAC billing factor credit would be lower than the original values determined in this example?

g. Based on this hypothetical, would South Kentucky agree that if the reduction in monthly fuel costs associated with the lower kWh sales were more than $1,000,000, the adjusted average monthly fuel costs would be lower and consequently the FAC billing factor credit would be higher than the original values determined in this example?

Response:

a. South Kentucky agrees.

b. South Kentucky agrees.

c. South Kentucky agrees.

d. South Kentucky agrees.

e. South Kentucky agrees.

f. South Kentucky agrees.

g. South Kentucky agrees.

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18. For the following hypothetical environmental surcharge example, please assume the following values:
- The current month surcharge revenue requirement (return on rate base, operating expenses, and true-up adjustment), E(m), is $9,500,000.
- The current 12-month average Member revenues, R(m), is $57,000,000.
- The monthly reduction in Member revenues (base rates and FAC) associated with the South Kentucky 58 MW power purchase is $2,000,000.

a. Would South Kentucky agree that the current environmental surcharge factor in this example, E(m) / R(m), would be 16.67%?

b. Would South Kentucky agree that after taking into consideration the reduction in average Member revenues due to the South Kentucky power purchase, in this example E(m) / R(m) would be 17.27%?

c. Would South Kentucky agree that, all other things being equal, a reduction in the average monthly Member revenues results in an increase in the environmental surcharge included in the power bill from EKPC?

d. Would South Kentucky agree that if EKPC's energy kWh sales to South Kentucky were reduced, there would likely be a related reduction in the variable components of the monthly operating costs recovered through the environmental surcharge revenue requirement?

e. Would South Kentucky agree that to achieve the surcharge factor originally determined in this example of 16.67%, the monthly surcharge revenue requirement would need to be reduced by approximately $325,000 [($9,500,000 - $325,000) / ($57,000,000 – $2,000,000) = 16.68%]?

f. Based on this hypothetical, would South Kentucky agree that if the reduction in the monthly surcharge revenue requirement associated with the lower kWh sales were less than $325,000, the adjusted surcharge factor would be higher than the original values determined in this example?

g. Based on this hypothetical, would South Kentucky agree that if the reduction in the monthly surcharge revenue requirement associated with the lower kWh sales were more than $325,000, the adjusted surcharge factor would be lower than the original values determined in this example?

Response:

a. South Kentucky agrees.

b. South Kentucky agrees.

c. South Kentucky agrees.

d. South Kentucky agrees.

e. South Kentucky agrees.

f. South Kentucky agrees.

g. South Kentucky agrees.

Witness: Counsel (as to objection), Carter Babbit

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19. Please refer to Exhibit 18 of the Application, the Direct Testimony of Carter Babbit ("Babbit Testimony"), page 2. Please provide the following information concerning EnerVision:

a. When was EnerVision founded?

b. Is EnerVision a subsidiary or affiliated with another corporate entity?

c. Since its founding, has EnerVision been affiliated with any energy providers?

d. Is EnerVision in any way affiliated with Morgan Stanley?

Response:

Objection: South Kentucky objects to this request, as the requested information is not relevant to the subject matter of this proceeding or any related interest of EKPC (not being a member of South Kentucky). In this respect, the information encompassed by this request does not bear on the Commission's review of and action on South Kentucky's application or the relief requested therein. Without waiver of the foregoing objection, South Kentucky states as follows:

a. April 11, 1997.

b. No.

c. When founded in 1997, EnerVision was created as a for-profit subsidiary of Oglethorpe Power Corporation during Oglethorpe's corporate restructuring. In 1998 the employees of EnerVision purchased 100 percent of EnerVision from Oglethorpe Power Corporation in order to become an independent consulting firm. For the past 20 years, EnerVision has remained an independent, employee owned consulting firm.

d. No.

Witness: Counsel (as to objection), Carter Babbit

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20. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 5. Please identify the distribution cooperatives in Kentucky that EnerVision has worked with.

Response:

Objection: South Kentucky objects to this request, as the requested information is not relevant to the subject matter of this proceeding or any related interest of EKPC (not being a member of South Kentucky). In this respect, the information encompassed by this request does not bear on the Commission's review of and action on South Kentucky's application or the relief requested therein. Without waiver of the foregoing objection, South Kentucky states as follows:

While not a distribution cooperative, it should be noted EnerVision has worked with EKPC previously.

EnerVision has also worked with the following distribution cooperatives in Kentucky: Blue Grass Energy, Clark Energy, Fleming-Mason Energy, Grayson RECC, Gibson EMC, Jackson Energy, Jackson Purchase Energy, Owen Electric, Salt River Electric, and Shelby Energy.

Witness: Carter Babbit and William Steven Seelye

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21. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 7, line 19 through page 8, line 9.

    a. Please indicate whether the EKPC base case as described in this portion of the Babbit Testimony was consistently utilized in the evaluation of all proposals.

    b. Please explain why the EKPC base case was developed utilizing EKPC's Rate E-2, considering the fact that South Kentucky is provided service under EKPC's Rates B, C, and E. Please include with the explanation a discussion of why the EKPC base case did not reflect Rates B and C.

    c. Please explain why it was reasonable to exclude fuel and environmental surcharge costs from the South Kentucky estimated power costs. Also, please explain whether fuel costs reference the FAC factor or all fuel costs (base fuel in the energy rate plus the FAC factor).

Response:

a. Yes

b. Service under EKPC's Rates B and C is available to individual end-use customers with contracts for demands of 500 kW or greater. The "Applicability" sections of EKPC's Rates B and C specify a tri-party arrangement wherein the rates are "[a]pplicable to owner-member and retail members willing to contract for demands of 500 kW or greater and a monthly minimum energy usage equal to or greater than 400 hours per kW."

   By exercising its right to obtain energy supplied from an Alternative Source, South Kentucky seeks to reduce the cost of providing electric service to its residential, commercial and industrial customers – customers that are not otherwise receiving significant rate reductions under EKPC's Rates B and C. South Kentucky thus conducted its analysis accordingly. Furthermore, to the best of our knowledge, the other EKPC members that have exercised Amendment 3 and the MOU have used Alternative Power to reduce the costs of electric service under Rate E, and not costs associated with discounted service under Rates B, C, G or other special contract rates to individual industrial, commercial public authority customers..

c. Fuel and environmental surcharge adders are not part of the base rates, and therefore should not be included in a base rate comparison.

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22. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 12. Please explain how it was determined that the cost of services provided by EKPC acting as agent was at a rate of $0.80 / MWh. Please include with the explanation the source of this rate quote.

Response:

South Kentucky was informed by EKPC Senior Vice President of Power Supply David Crews that the EKPC agency cost would be based on their proposed Co-Generation Tariff which has a Market Administration Fee of $0.0008 per kWh or $0.80 per MWh, resulting in an annual payment of $406,464 to EKPC.

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23. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 13.

a. Please explain the reason(s) for the 18 percent reserve requirement as it relates to PJM's zonal determination of a load serving entity's required unforced capacity obligation.

b. Please identify the source of the 18 percent reserve requirement.

c. Please explain how 18 percent was determined to be the appropriate reserve requirement for the financial capacity hedge.

d. Please explain whether EKPC should carve out the 68 MW of reserve capacity in all future PJM Base Residual Auctions ("BRA"), including the upcoming 2021-2022 BRA in May of 2018.

e. Please explain whether the acquisition of any excess reserve capacity will be resold for gain or loss in any subsequent BRA's or incremental auctions and whether the proceeds (gains or losses) are reflected in the financial assumptions for entering into the proposed transaction.

f. Please explain whether the purchase of reserve capacity in excess of South Kentucky's 15 percent limitation should have been considered in the amount procured.

g. South Kentucky has acknowledged that its 15 percent limit under Amendment 3 and the 2015 Memorandum of Understanding is 58.5 MW. Please explain why contracting for a financial capacity hedge of 68 MW is not in violation of the 58.5 MW limitation.

Response:

a. The reason for use of the 18 percent reserve requirement is to ensure the financial capacity hedge reasonably covers the amount of capacity South Kentucky may have to purchase related to the load served by the Alternate Source.

b. The 18 percent reserve requirement was not based on a specific source but rather on review of reserve calculations using zoning factors in the EKPC zone for prior planning years 2016/17 and 2017/18, as well as forecasted years 2018/19, 2019/20, and 2020/21. 18 percent is above the final values reviewed and was selected as a conservative value for the protection of South Kentucky and its members.

c. See response to b.

d. South Kentucky does not have a position on the actions EKPC should take.

e. Excess reserve will not be obtained as part of the Alternate Source, as the financial capacity hedge is not an actual purchase of capacity. South Kentucky will be purchasing capacity from PJM during the term of the Alternate Source based on PJM's determination of appropriate capacity levels.

f. See response to b.

g. It is the 58 MW of energy South Kentucky is purchasing each hour via the Alternate Source that is reducing its purchases from EKPC, not the financial capacity hedge.

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24. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 15.

a. While Morgan Stanley offered a fixed firm energy price product for 58 MW, please confirm that South Kentucky is subject to potential additional costs related to changes in environmental law, as disclosed in Exhibit 7 of the Application, the Firm Physical Energy Confirmation, Section 17 – Environmental Change in Law.

b. While Morgan Stanley offered a financial capacity hedge for 68 MW at a set price, please confirm that South Kentucky and Morgan Stanley are subject to potential additional costs related to the buyer's fixed amount, the seller's floating amount, and changes in environmental law, as disclosed in Exhibit 8 of the Application, the Financial Capacity Confirmation, Sections 12 through 15 (Buyer's Fixed Amount, Seller's Floating Amount, Calculations, Calculation Period, and Calculation Agent) and 20 – Environmental Change in Law.

c. Please explain how, if at all, these potential additional costs were incorporated into the net present value analysis of the Morgan Stanley proposal for the 58 MW.

Response:

a. Yes, South Kentucky is subject to potential additional costs related to changes in environmental law as part of the Alternate Source, just as it is through its purchases from EKPC.

b. South Kentucky can confirm those provisions are part of the transaction.

c. Estimates of these costs were not included in the analysis that led to selection of the Alternate Source. Scenario analysis was conducted on the Morgan Stanley financial capacity hedge to judge exposure to Incremental Auctions. As costs from an Environmental Change in Law would most likely apply and be in similar quantities to purchases South Kentucky makes from EKPC, they were considered to be a wash in the analysis.

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25. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 18, lines 2 through 4. Please explain the basis for the conclusion that "were this load to remain in EKPC it would be subject to similar capacity price variability due to EKPC's participation in the PJM capacity market." Also, please explain whether Mr. Babbit was aware that EKPC has no rate mechanism in place that allows for the current recovery of market capacity variability but rather recovers those costs through base rates, which can only be changed through a base rate case proceeding.

Response:

Capacity prices can change in the Incremental Auctions. Yes, he is aware that EKPC has no rate mechanism in place that allows for the current recovery of market capacity variability but rather recovers those costs through base rates, which can only be changed through a base rate case proceeding.

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26. Please refer to Exhibit 18 of the Application, the Babbit Testimony, Exhibit CB-9.

a. Please identify on the exhibit which color line represents the EKPC base case and which line represents the final Morgan Stanley proposal for the 58 MW.

b. Please provide all spreadsheets, calculations, assumptions, and other documentation that support the information presented in graphic form on Exhibit CB-9. Please include spreadsheets in Excel format with all formulas intact and unprotected. The spreadsheets, calculations, assumptions, and other documentation are only requested for the EKPC base case and the Morgan Stanley proposal for the 58 MW.

Response:

a. None of the lines in Exhibit CB-9 represents the EKPC base case, as all of the lines represent the estimated savings associated with the proposals compared to the EKPC base case. None of the lines represents the final Morgan Stanley proposal, as the comparison was made before the final Morgan Stanley price was established. However, the Morgan Stanley proposal at the time is represented by the blue line in the chart.

b. See Attachment EKPC#26. This Attachment contains confidential information and is subject to a motion for confidential treatment. As the confidential information pervades the Attachment, it is being filed with the Commission under seal.

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27. In the Herrman Testimony, page 8, lines 13 through 16, Mrs. Herrman states that EnerVision calculated a projected 2020 contract year cost for power purchases made from both EKPC and Morgan Stanley. Please provide all spreadsheets, calculations, and assumptions utilized to determine the projected 2020 contract year cost.

Response:

See Attachment EKPC#26. This Attachment contains confidential information and is subject to a motion for confidential treatment. As the confidential information pervades the Attachment, it is being filed with the Commission under seal.

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28. Please provide the following costs associated with the proposed Morgan Stanley transaction and explain how these costs were incorporated into the net present value analysis of the proposal. If the cost was not included in the net present value analysis, please explain why it was not included.

a. The annual cost of being a PJM Market Participant.

b. The annual cost of services provided by EnerVision.

c. The annual cost of transmission provided by EKPC.

d. The annual cost of additional personnel hired by South Kentucky to administer the Morgan Stanley transaction and the requirements of being a PJM Market Participant.

Response:

a. The cost of being a PJM Market Participant include both the cost of the EKPC-mandated PJM membership ($1,500 initially) and PJM market participant service to be provided by EKPC or its agent on South Kentucky's behalf. The annual cost of PJM membership, $5,000, was not included in the analysis because it was determined to be small relative to the costs and benefits of the transaction in what was already a conservative analysis. The cost of PJM market participant services to be provided by EKPC or its agent, estimated by EKPC to be $0.80 per MWh, were included in the analysis.

b. There was no discussion of potential services to be provided by EnerVision during the term of the Alternate Source, thus no cost was included.

c. See Attachment EKPC#26. This Attachment contains confidential information and is subject to a motion for confidential treatment. As the confidential information pervades the Attachment, it is being filed with the Commission under seal.

d. Because EKPC or its agent will be providing services to meet the requirements of being a PJM Market Participant and no additional personnel were determined to be needed by South Kentucky to administer the Morgan Stanley contract, no such costs were included.

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29. Please explain if South Kentucky or EnerVision incorporated into its analyses the impacts the proposed Morgan Stanley transaction would have on the allocation of EKPC annual margins to the 16 owner-members. If this was not considered, please explain why it was not considered in the analyses.

Response:

No, South Kentucky's Representative on the EKPC Board of Directors received assurances from EKPC CEO Tony Campbell that the 58 MW could be mitigated at the August 7, 2017 Board Risk and Oversight Committee Meeting.

South Kentucky's CEO requested a special meeting with Mr. Campbell after the quarterly manager's meeting on August 21, 2017 and specifically asked about the impact of the MOU election on EKPC and was informed that EKPC could mitigate the 58 MW.

On December 29, 2017 EKPC Executive Assistant sent an e-mail on behalf of EKPC noting that they could mitigate the 58 MW.

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30. Please describe how South Kentucky and EnerVision incorporated the following items into their analysis of the proposed Morgan Stanley transaction. If the item was not included in the analysis, please explain why it was excluded.

 a. Cost shifts in the FAC and the potential that FAC billing factors could be larger or smaller than those currently experienced.

 b. Cost shifts in the environmental surcharge and the potential that environmental surcharge factors could be larger or smaller than those currently experienced.

 c. Shifts of costs recovered through demand and energy rates and the likelihood that some level of these costs will be allocated back to South Kentucky during a base rate case proceeding.

Response:

a. South Kentucky does not anticipate that there will be material cost shifts in the FAC. EKPC has indicated to South Kentucky that the loss of sales to South Kentucky due to the Alternative Source could be offset with either load growth on the EKPC system or off-system sales. Consequently, the impact on the FAC from the proposed alternative power transaction should be minimal.

b. South Kentucky does not anticipate that there will be any significant cost shifts in the Environmental Surcharge. EKPC has indicated to South Kentucky that the loss of sales to South Kentucky due to the Alternative Source could be offset with either load growth on the EKPC system or off-system sales. Consequently, environmental costs that would have otherwise been allocated to South Kentucky would be allocated to reflect either load growth on the various distribution cooperatives or allocated to off-systems sales.

c. South Kentucky does not anticipate that there will be significant cost allocated back to South Kentucky through base rate increases as a result of South Kentucky's proposed Alternative Source transaction. EKPC has indicated to South Kentucky that the loss of sales to South Kentucky due to the Alternative Source could be offset with either load growth on the EKPC system or off-system sales. Consequently, most of EKPC's "lost revenues" from the proposed transaction would be absorbed by increased sales growth or increased off-system sales.

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31. In a previous EKPC FAC six-month review case, the Commission concluded that it was important to maintain the limitation for recovery through the FAC of "non-economy energy purchases" in order to incentivize utilities to keep outages to a minimum and to have sufficient capacity to meet load.[2]

    a. In light of this need to have sufficient capacity to meet load, please explain why South Kentucky should be permitted to purchase power from an alternative source that is not supported by generating assets in Kentucky.

    b. Does South Kentucky believe that EKPC should no longer have to build assets to have sufficient capacity to meet load?

Response:

a. South Kentucky's proposed Alternative Source transaction is unrelated to the Commission's order in Case No. 2014-00226. In fact, South Kentucky's proposed transaction will, if anything, free up EKPC generation capacity to meet current load on EKPC in the event of a forced outage.

b. No. EKPC should continue to build generation and transmission facilities to the extent that new generation and transmission assets are necessary and cost effective.

[2] *See In the Matter of An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2013 Through April 30, 2014*, Order, Case No. 2014-00226, p. 8 (Ky. P.S.C., Jan. 30, 2015).

Witness: Counsel (as to objection), Dennis Holt

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32. Over the years, South Kentucky, along with the other 15 owner-members, voted to build or purchase all of EKPC's generating assets. Please explain why South Kentucky now believes it should be allowed to avoid the costs associated with these generating assets.

Response:

Objection: South Kentucky objects to the request insofar as it serves as a collateral attack on the Commission's December 18, 2015 order in Case No. 2012-00503, as well as Amendment 3 and the MOU (which have been accepted for filing by the Commission). Without waiving the foregoing objection, South Kentucky states as follows:

South Kentucky is adhering to the contractual agreement that has been adopted and executed by EKPC and all 16 distribution cooperatives. Both Amendment 3 and the MOU were accepted for filing with the Commission. The MOU (Exhibit #2 in the Application), Section 6(A) notes that EKPC shall not be entitled to charge any Owner Member for so-called "stranded costs" related to the Owner Member's implementation of its rights to use Alternate Sources. As a result, to the extent that an Owner Member's use of Alternate Sources reduces its billing demands under EKPC's rates under the Wholesale Power Contract as in effect from time to time, EKPC shall not be entitled to charge any special rate or charge to the Owner Member attributable to such billing demand reduction. EKPC will, however, be entitled to continue to set its rates for all Owner Members under the Wholesale Power Contracts to produce revenues that are sufficient to cover all of its costs, in accordance with the Wholesale Power Contracts. South Kentucky's position is not a new belief, but rather explicitly provided for in Amendment 3 and the MOU.

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33. Assume for purposes of the following questions that the Commission approves the proposed Morgan Stanley transaction. In January and February of 2021 Morgan Stanley is unable to deliver any of the power covered by the transaction due to the unavailability of generating resources and/or significant transmission constraints within PJM that prohibit delivery to the EKPC delivery point.

    a. Please describe how the Morgan Stanley transaction would address and satisfy this event.

    b. Please describe South Kentucky's contingency plans to deal with this shortage of capacity and energy.

    c. Please explain whether South Kentucky has assumed it would be able to secure the replacement capacity and energy from EKPC. Include with this explanation the basis for South Kentucky's assumption that EKPC would be the back-up provider.

    d. While the terms of the Morgan Stanley transaction may provide monetary compensation to South Kentucky for the failure to delivery contracted capacity and energy, please describe how it believes its customers would react to such a situation.

Response:

a. Please see Exhibit 5, Article 4.1 of the Application. Also, all EKPC assets are now sold into the PJM market and no longer dispatched by EKPC. Any generating resource outage or transmission constraint would require PJM to bring on additional assets including EKPC owned assets now dispatched by PJM. Also, the MOU in Section 5 (E) (i) states that EKPC will provide capacity or energy if the Alternate Source does not deliver.

b. South Kentucky's exposure to capacity constraints is no different than the current structure. Any capacity constraints will cause PJM to bring on additional generating resources to serve its obligations. Again, the MOU requires EKPC to provide capacity and/or energy in Section 5 (E) (i).

c. Yes, based on the MOU Section 5 (E) (i) and the testimony of David Crews in PSC Case #2014-00292 PSC Request #10 in which he states: "During periods when the LFGTE facility is scheduled for an outage, EKPC will provide Farmers with energy as needed through the Wholesale Power Contract." See also the testimony of David Crews in PSC Case #2014-00292 PSC Request #11 in which he states "During periods when the LFGTE facility is experiencing an unplanned outage, EKPC will provide Farmers with energy as needed through the Wholesale Power Contract."

In addition, in PSC Case 2015-00213, the testimony of Mark Stallons notes on Page 6 line 6 through 8 that "[w]hen the generator is down for an outage, overhaul, or disruption in natural gas supply, Owen Electric will purchase power from EKPC at our existing tariff rate (EKPC's Section E rate)." Also, in the final PSC order in case 2015-00213 on page 7 the Commission notes that "[w]hen the generator is inoperative for any reason, Owen Electric will purchase power from EKPC through its Wholesale Power Contract at its tariffied rate."

d. See response to a. Members should be indifferent, as Morgan Stanley is obligated to make South Kentucky financially whole in such a situation.

Witness: Carter Babbit and William Steven Seelye

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34. Please explain whether South Kentucky believes the proposed Morgan Stanley transaction will provide the same degree of reliability as provided by EKPC. Please include with this explanation the basis for South Kentucky's belief concerning reliability from the proposed Morgan Stanley transaction.

Response:

The proposed Morgan Stanley transaction is expected to be supplied from FERC authorized and monitored firm markets in PJM. The PJM market has proven to be robust and reliable with many buyers and sellers. The FERC approved market is designed to ensure long-term grid reliability by securing the appropriate amount of power supply resources needed to meet predicted energy demand in the future. The electric suppliers in the PJM market are required to have the resources to meet purchasers' demand plus a reserve margin. Suppliers must meet that requirement with either generating capacity they own, with capacity they purchase from others under contract, or through demand response. Over the years, to ensure reliability, PJM has increased the requirements and guidelines for participating in the PJM market.

In addition, with the protections afforded South Kentucky by the agreement, if circumstances necessitated South Kentucky securing replacement energy due to a failure by Morgan Stanley to deliver, South Kentucky would be able to obtain such energy regardless of price (because Morgan Stanley is obligated to cover the difference between the price of replacement power and the price of power under the agreement).

Witness: Counsel (as to objection), Dennis Holt

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35. South Kentucky is seeking approval of a transaction that would result in it claiming 58 MW of its 58.5 MW maximum permissible demand reduction under Amendment 3 of the Wholesale Power Contract and the 2015 Memorandum of Understanding. This is approximately a 15 percent demand reduction compared to the 5 percent demand reduction established for each owner-member.

    a. Please describe whether South Kentucky considered what the impact on the other owner-members would be from it taking nearly the maximum permissible demand reduction at a 100 percent load factor.

    b. Please describe whether South Kentucky considered the possibility that at this time other owner-members would seek to secure more than the base 5 percent demand reduction as well, thus exhausting the total limitation on demand reductions before all owner-members had the chance to exercise this option.

    c. Please indicate whether South Kentucky considered that multiple owner-member requests for maximum permissible demand reductions would make it difficult for EKPC to mitigate the cost impacts on the owner-members.

    d. Please explain how South Kentucky's request for the maximum permissible demand reduction is consistent with the Cooperative principle "Cooperation between Cooperatives".

Response:

Objection: South Kentucky objects to the request insofar as it serves as a collateral attack on the Commission's December 18, 2015 order in Case No. 2012-00503, as well as Amendment 3 and the MOU (which have been accepted for filing by the Commission). Without waiving the foregoing objection, South Kentucky states as follows:

a. No. South Kentucky's Representative on the EKPC Board of Directors received assurances from EKPC CEO Tony Campbell that the 58 MW could be mitigated at the August 7, 2017 Board Risk and Oversight Committee Meeting.

South Kentucky's CEO requested a special meeting with Mr. Campbell after the quarterly manager's meeting on August 21, 2017 and specifically asked about the impact of the MOU election on EKPC and was informed that EKPC could mitigate the 58 MW.

On December 29, 2017 EKPC Executive Assistant sent an e-mail on behalf of EKPC noting that they could mitigate the 58 MW.

b. Yes, South Kentucky did consider other owner-members. South Kentucky gave notice for primary reason of the potential to lower their wholesale power costs which would be beneficial for the owner-members of South Kentucky. Only after South Kentucky filed did other owner-members of EKPC voice their intent to pursue a similar type of agreement. South Kentucky is only doing what is allowable under this agreement and in the best interest of its members.

c. No, South Kentucky believes that EKPC will be able to mitigate the total amount of demand reduction allowable under Amendment 3 and the MOU.

d. Given the agreement by EKPC and all participating members to Amendment 3 and the MOU, it seems the "Cooperation between Cooperatives" principle was taken into consideration.

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36. The proposed Morgan Stanley transaction will result in the shifting of costs from South Kentucky to the other owner-members. There will be immediate shifts in the FAC and environmental surcharge, while costs recovered by demand and energy rates will be addressed in a future base rate case proceeding.

a. Please explain whether South Kentucky understood that EKPC might have to file a base rate case application if it could not mitigate the costs that were shifted from South Kentucky to the other owner-members. Please include with this explanation whether South Kentucky incorporated the potential of a base rate increase in its analysis of the benefits of the proposed Morgan Stanley transaction.

b. Please describe whether South Kentucky considered that EKPC's cost mitigation efforts might require a premature review of the economic viability of its baseload (coal) generating assets. Also, please include a discussion of whether there potentially could be system reliability concerns resulting from such a review. In addition, please state what South Kentucky's position would be regarding cost causation and sharing with the owner-members if PJM should require transmission upgrades to offset the impact of any early plant closures as a result of this transaction.

c. Please describe whether South Kentucky considered that EKPC's cost mitigation efforts might result in stranded assets that will need to be recovered from owner-members.

Response:

Objection: South Kentucky objects to the request insofar as it serves as a collateral attack on the Commission's December 18, 2015 order in Case No. 2012-00503, as well as Amendment 3 and the MOU (which have been accepted for filing by the Commission). Without waiving the foregoing objection, South Kentucky states as follows:

a. South Kentucky did not consider such a proposition in its analysis of the benefits of this transaction. South Kentucky knows of no such suggestion by EKPC of the possibility of a base rate increase if any owner-member gave notice under this agreement. See also South Kentucky's Response to question 35a.

b. South Kentucky did not consider any of the factors above for the primary reason that it is not changing its load profile in any form. It is only changing its source of power.

c. South Kentucky did not consider this item in its analysis of this project. The MOU (Exhibit #2 in the Application), Section 6(A) notes that EKPC shall not be entitled to charge any Owner Member for so-called "stranded costs" related to the Owner Member's implementation of its rights to use Alternate Sources. As a result, to the extent that an Owner Member's use of Alternate Sources reduces its billing demands under EKPC's rates under the Wholesale Power Contract as in effect from time to time, EKPC shall not be entitled to charge any special rate or charge to the Owner Member attributable to such billing demand reduction. EKPC will, however, be entitled to continue to set its rates for all Owner Members under the Wholesale Power Contracts to produce revenues that are sufficient to cover all of its costs, in accordance with the Wholesale Power Contracts.

Witness: Counsel (as to objection), Michelle Herrman

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37. Mrs. Herrman states on page 14 of her testimony that the increase in margins expected from the proposed Morgan Stanley transaction would allow South Kentucky to delay a general rate adjustment under current predictions by at least four years. Without this transaction, South Kentucky has stated it would require a rate adjustment during 2019. EKPC's last base rate case adjustment was effective in January 2011, while its FAC and environmental surcharge adjust monthly.

    a. Since EKPC's base rates have not increased since 2011, please explain what factors were causing South Kentucky to consider a base rate increase during 2019. Please include in this explanation whether long-term interest rates, line losses, load factors, and South Kentucky investments were contributing factors to the need for a base rate adjustment.

    b. Please explain whether the acquisition of a new headquarters building had an impact on the need for a base rate adjustment. Please include with the explanation whether the acquisition of the new headquarters building is a significant factor.

    c. Please explain how the proposed Morgan Stanley transaction was going to delay a base rate adjustment by at least four years, given that the transaction reflects only 15 percent of South Kentucky's load.

Response:

Objection: South Kentucky objects to this request, as the requested information is not relevant to the subject matter of this proceeding or any related interest of EKPC (not being a member of South Kentucky). In this respect, the information encompassed by this request does not bear on the Commission's review of and action on South Kentucky's application or the relief requested therein. Without waiving the foregoing objection, South Kentucky states as follows:

c. Power cost is South Kentucky's largest operational expense. Power cost accounts for approximately 72% of its total annual costs. The blending of power costs under the proposed transaction combined with the power costs from EKPC will reduce power costs. These savings directly affect the ratio drivers impacting our projection of a need for a base rate change.

Witness: Counsel (as to objection), Dennis Holt

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38. Please explain whether South Kentucky believes their customers want lower rates regardless of the impacts on system reliability and the financial implications to all owner-members.

Response:

Objection: South Kentucky objects to the request insofar as it serves as a collateral attack on the Commission's December 18, 2015 order in Case No. 2012-00503, as well as Amendment 3 and the MOU (which have been accepted for filing by the Commission). South Kentucky also objects to the request insofar as it contains embedded presumptions regarding South Kentucky's members and the effects of the Alternate Source designation by South Kentucky in accordance with Amendment 3 and the MOU. Without waiving the foregoing objection, South Kentucky states as follows:

South Kentucky's members appreciate stable rates, and we expect no impact on reliability as a result of the proposed transaction. See also the response to Question 34.

Witness: Michelle Herrman

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39. Please explain how South Kentucky planned on accounting for the proposed Morgan Stanley transaction. Please include with the explanation a discussion of whether South Kentucky planned to track the costs and savings associated with the proposed transaction so it can demonstrate the benefits.

Response:

South Kentucky intends to comply with the Uniform System of Accounts as required by the Rural Utilities Service (RUS) Bulletin 1767B-1 to account for the expenses associated with the proposed transaction. There has been no specific discussion regarding tracking the costs and savings associated with the proposed transaction. However, those costs and savings will be monitored to allow for discussion and analysis as is currently customary for all of South Kentucky's expenses.

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40. The proposed Morgan Stanley transaction involves complex financial agreements between South Kentucky and Morgan Stanley. Over the next 20 years it would seem possible that market conditions could change that would impact the overall financial benefits currently anticipated from the proposed transaction. Please explain what contingencies South Kentucky has planned for in the event market conditions do change and the proposed transaction no longer provides a financial benefit to South Kentucky.

Response:

South Kentucky has a 20 year firm energy price with Morgan Stanley. Based on EKPC's 20 year financial forecast, EKPC rates are expected to increase significantly throughout the 20 year period making the PPA a much more attractive alternative.

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41. Concerning the proposed Morgan Stanley transaction:

a. Please explain why South Kentucky choose to hedge its capacity price risk with a financially settled capacity contract.

b. Please confirm the South Kentucky plans to purchase physical capacity in the PJM market.

c. Please explain why South Kentucky choose a financial transaction for capacity and a physical transaction for energy.

d. Does South Kentucky plan to financially settle the energy purchase from Morgan Stanley and purchase physical energy from PJM?

e. Does South Kentucky expect to recover payments to Morgan Stanley for the financial settlement of the capacity transaction through rates to its customers?

Response:

a. South Kentucky chose the transaction that provides the greatest projected financial benefit to its members.

b. EKPC or its agent, through the services to be provided to South Kentucky pursuant to the MOU, will obtain needed capacity from PJM and flow the associated cost to South Kentucky.

c. See response a.

d. No.

e. Yes.