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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 NUCOR STEEL GALLATIN'S
FIRST SET OF 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

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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

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

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.



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) CASE NO.
FOR APPROVAL OF MASTER POWER) 2018-00050
PURCHASE AND SALE AGREEMENT AND)
TRANSACTIONS THEREUNDER)

VERIFICATION

STATE OF KENTUCKY
COUNTY OF PULASKI

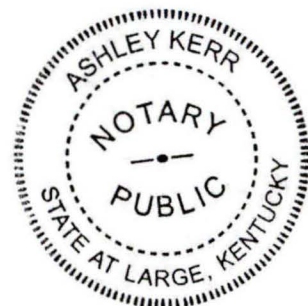
Dennis Holt, being duly sworn, states that he has supervised the preparation of the Responses of South Kentucky RECC in the above-referenced case dated February 26, 2018, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed 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.



**South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Nucor Steel Gallatin's First Request for Information**

1. If the Application of South Kentucky is approved as filed, please 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.

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 NUCOR#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*



PRIVILEGED OR CONFIDENTIAL NOTICE: This electronic mail transmission is for the use of the named individual or entity to which it is directed and may contain information that is privileged or confidential. It is not to be transmitted to or received by anyone other than the named addressee (or a person authorized to deliver it to the named addressee). It is not to be copied or forwarded to any unauthorized persons. If you have received this electronic mail transmission in error, delete it from your system without copying or forwarding it, and notify the sender of the error by replying via email or by calling East Kentucky Power Cooperative, Inc. at 859-744-4812 (collect), so that our address record can be corrected.

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
Nucor Steel Gallatin's First Request for Information**

2. If the Application of South Kentucky is approved as filed, then please 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.

**South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Nucor Steel Gallatin's First Request for Information**

3. If the Application of South Kentucky is approved as filed, then please 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
Nucor Steel Gallatin's First Request for Information

4. Please 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
Nucor Steel Gallatin's First Request for Information

5. Please 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
Nucor Steel Gallatin's First Request for Information

6. 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 NUCOR#6.

EKPC 5% Limit

A3 Allotments, Based on Data Through January 2018

A3 Balances as of January 2018

Owner-Member Cooperative	EKPC 5% Limit					Owner-Member Cooperative	A3 Allotments, Based on Data Through January 2018					Owner-Member Cooperative	A3 Balances as of January 2018			Pro-rata Share of Balance	
	EKPC CP (MW) for Month of			Average	5% Limit		Owner-Member Peak (MW)			Average	5% Election		15% Election	Allocation	5% Balance		Pro-rata Share of Balance
	Feb 2015- Jan 2016	Feb 2016- Jan 2017	Feb 2017- Jan 2018				Feb 2015- Jan 2016	Feb 2016- Jan 2017	Feb 2017- Jan 2018								
Big Sandy	89.5	56.9	74.3	73.6	3.7	Big Sandy	89.5	58.8	74.3	74.2	3.7	11.1	Big Sandy	5%	3.7	3.7	1.8
Blue Grass	410.9	324.4	382.2	372.5	18.6	Blue Grass	410.9	324.4	383.2	372.8	18.6	55.9	Blue Grass	5%	18.6	18.6	9.2
Clark	154.0	113.6	139.4	135.7	6.8	Clark	154.0	113.6	140.1	135.9	6.8	20.4	Clark	5%	6.8	6.8	3.4
Cumberland Valley	158.3	109.6	141.3	136.4	6.8	Cumberland Valley	158.3	110.0	141.3	136.5	6.8	20.5	Cumberland Valley	5%	6.8	6.8	3.4
Farmers	136.4	115.9	138.4	130.2	6.5	Farmers	136.8	115.9	138.4	130.3	6.5	19.6	Farmers*	5%	6.5	1.9	1.0
Fleming Mason	196.9	166.9	189.1	184.3	9.2	Fleming Mason	198.0	179.7	189.1	188.9	9.4	28.3	Fleming Mason*	5%	9.4	8.0	4.0
Grayson	85.2	57.6	72.7	71.9	3.6	Grayson	85.2	58.3	72.7	72.1	3.6	10.8	Grayson	5%	3.6	3.6	1.8
Inter-County	171.1	134.1	158.6	154.6	7.7	Inter-County	171.1	134.4	158.6	154.7	7.7	23.2	Inter-County	5%	7.7	7.7	3.8
Jackson	325.6	230.2	293.6	283.2	14.2	Jackson	327.7	232.2	293.6	284.5	14.2	42.7	Jackson*	5%	14.2	0.1	0.1
Licking Valley	88.6	58.7	75.0	74.1	3.7	Licking Valley	88.6	60.6	76.6	75.3	3.8	11.3	Licking Valley*	5%	3.8	3.5	1.7
Nolin	211.1	199.1	215.5	208.6	10.4	Nolin	230.4	199.1	216.1	215.2	10.8	32.3	Nolin	5%	10.8	10.8	5.3
Owen	347.4	350.7	423.8	374.0	18.7	Owen	430.9	401.5	447.5	426.6	21.3	64.0	Owen*	5%	21.3	0.0	0.0
Salt River	314.4	262.0	306.4	294.3	14.7	Salt River	316.1	262.0	306.4	294.8	14.7	44.2	Salt River*	5%	14.7	0.0	0.0
Shelby	120.5	99.6	113.9	111.3	5.6	Shelby	120.5	101.6	113.9	112.0	5.6	16.8	Shelby	5%	5.6	5.6	2.8
South Kentucky	458.9	353.4	426.2	412.9	20.6	South Kentucky	458.9	353.4	426.2	412.9	20.6	61.9	South Kentucky*	15%	61.9	3.9	1.9
Taylor	159.4	139.1	157.0	151.8	7.6	Taylor	160.2	139.1	157.0	152.1	7.6	22.8	Taylor	5%	7.6	7.6	3.8
Total	3,428.1	2,771.8	3,307.4	3,169.1	158.5	Total	3,537.0	2,844.5	3,335.0	3,238.8	161.9		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

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Nucor Steel Gallatin's First Request for Information

7. 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 NUCOR#6.

South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Nucor Steel Gallatin's First Request for Information

8. 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 NUCOR#6.

**South Kentucky Rural Electric Cooperative Corporation
Case No. 2018-00050
Nucor Steel Gallatin's First Request for Information**

9. 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 NUCOR#6.