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AUG 01 2016

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COMMISSION

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August 1, 2016

***VIA HAND DELIVERY***

Ms. Talina Mathews, Ph.D.  
Executive Director  
Kentucky Public Service Commission  
P.O. Box 615  
211 Sower Boulevard  
Frankfort, KY 40602

RE: *In the Matter of the Application of East Kentucky Power Cooperative, Inc. to Transfer Functional Control of Certain Transmission Facilities to PJM Interconnection, LLC, P.S.C. Case No. 2012-00169 - Annual Report of East Kentucky Power Cooperative, Inc. – Request for Confidential Treatment*

Dear Ms. Mathews:

Attached, please find a copy of the Annual Report of East Kentucky Power Cooperative, Inc. ("EKPC") regarding its participation in the PJM Interconnection, LLC ("PJM") ("Annual Report"). In accordance with KRS 61.878, 807 KAR 5:001, Section 13(3) and other applicable law, EKPC hereby respectfully requests that certain portions of the Annual Report should be classified as confidential for a period of five years from the date of this filing, for the specific reasons set forth below.

The Kentucky Open Records Act exempts from disclosure certain confidential and proprietary commercial information. *See* KRS 61.878(1)(c). To qualify for this exemption from public disclosure and, therefore, to maintain the confidentiality of the information, a party must establish that disclosure of the confidential and proprietary commercial information would permit an unfair advantage to competitors of that party. Public disclosure of the Confidential Information described in the Annual Report would lead to such a result.

The Annual Report includes a disclosure of: (1) the amount of Annual Revenue Rights ("ARRs") and associated ARR revenue allocated to EKPC; (2) the amount of ARRs converted to Financial Transmission Rights ("FTRs"); (3) the amount of revenue remaining after converting to FTRs; (4) the additional amount of transmission rights purchased by EKPC; (5) EKPC's hedging positions; and, (6) actual and projected membership costs and benefits. Given the nature of the ARR/FTR market, EKPC and its Members would be materially damaged if EKPC's competitors were permitted to have access to this information. The information provided under seal discloses

Ms. Talina Mathews  
August 1, 2016  
Page 2

sensitive and proprietary information as these positions, and the underlying strategies, are used by EKPC to provide service to its Members at fair, just and reasonable rates. Maintaining the confidentiality of this information is necessary to protect the interests of both EKPC and its Members.

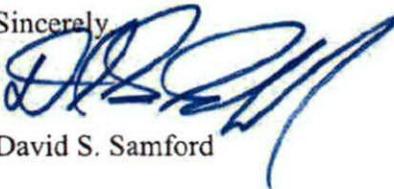
The public disclosure of the Company's transmission rights awarded, converted and purchased, its hedging strategies, and actual and projected membership costs and benefits would reveal information that is, quite obviously, highly sensitive, commercially valuable and strictly proprietary. The public disclosure of this information would potentially harm EKPC's competitive position in the marketplace, to the detriment of EKPC and its customers. The Confidential Information contained in the exhibit to the Annual Report was developed internally by EKPC personnel, is not on file with any public agency, and is not available from any commercial or other source. Moreover, the aforementioned Confidential Information in the Annual Report is distributed within EKPC only to those employees who must have access for business reasons, and is generally recognized as confidential and proprietary in the energy industry. The Confidential Information for which EKPC is seeking confidential treatment is not known outside of EKPC. This Confidential Information was, and remains, integral to EKPC's effective execution of business decisions and strategy. Indeed, as the Kentucky Supreme Court has found, "information concerning the inner workings of a corporation is 'generally accepted as confidential or proprietary.'" *Hoy v. Kentucky Industrial Revitalization Authority*, 907 S.W.2d 766, 768 (Ky. 1995).

The attached information is also entitled to confidential treatment because it constitutes a trade secret under the two prong test of KRS 365.880: (a) the economic value of the information as derived by not being readily ascertainable by other persons who might obtain economic value by its disclosure; and (b) the information is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The economic value of the information derives from the fact that it reveals EKPC's market positions and strategies – which is commercially valuable. Second, EKPC certainly endeavors to maintain the confidentiality of the information by limiting its dissemination, even within the company.

In accordance with 807 KAR 5:001, Section 13(3), I am enclosing: (1) one copy of the annual report, under seal, which identifies the confidential material; and (2) ten copies of the annual report in which the confidential material is redacted. On behalf of EKPC, I respectfully request that the Confidential Information be treated as confidential materials under the Commission's regulations for a period of at least five (5) years from today's date. Please return a file-stamped copy of this filing to my office.

Please let me know if you have any questions.

Sincerely,



David S. Samford

Enclosure



August 1, 2016

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Attn: Ms. Talina R. Mathews, Executive Director

RE: *In the Matter of the Application of East Kentucky Power Cooperative, Inc. to Transfer Functional Control of Certain Transmission Facilities to PJM Interconnection, LLC, P.S.C. Case No. 2012-00169 - Annual Report of East Kentucky Power Cooperative, Inc.*

Dear Ms. Mathews,

In accordance with the December 20, 2012 Order of the Kentucky Public Service Commission ("Commission") in the above-styled case, and as modified by the May 14, 2015 Order in Case No. 2015-00116, please accept this as the annual report of East Kentucky Power Cooperative, Inc. ("EKPC") regarding its participation in the PJM Interconnection, LLC ("PJM") for the operating year June 1, 2015 through May 31, 2016. In accordance with the Orders, I would request that you place this annual report in EKPC's post-case correspondence file. With regard to the four specific topics of interest in the Commission's December 20, 2012 Order, I can report as follows.

Transmission Rights Awarded and Purchased

EKPC received Auction Revenue Rights ("ARRs"), based on its load requirements, during the annual allocation in April 2015. Those ARRs are used to obtain Financial Transmission Rights ("FTRs") to hedge the transmission congestion costs to serve EKPC's load throughout the delivery year. The ARRs can either be self-scheduled into FTRs or can be financially settled in the daily market and that revenue is used to purchase additional FTRs or used to off-set congestion costs. Attached is an Excel file (EKPC Auction Results 15\_16.xls) on the enclosed CD, with the amount of Financial Transmission Rights ("FTRs") that EKPC had in total during the delivery year June 1, 2015 through May 31, 2016. The spreadsheet also shows the costs for the FTRs purchased and the value of the FTRs "self-scheduled". The values are listed for the 5x16 portion, which includes values applicable Monday through Friday from 7:00 a.m. through 10:00 p.m. The "wrap" is the off peak hours of 11:00 p.m. through 6:00 a.m. from Monday through Friday, plus the entire 24 hours on Saturday and Sunday. EKPC estimates the value of the ARRs and FTRs to its members from June 1, 2015 through May 31, 2016 to be roughly [REDACTED]. This value has been included in the Trade Benefits described later in this report.

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### Description of Hedging Plans and Strategies

EKPC utilizes services from ACES to assist with the hedging plans and strategies for transmission congestion. Each month, EKPC, with assistance from ACES, analyzes its expected transmission positions and needs through the remainder of the delivery year (June 1 through May 31). Based on this analysis, bids are developed for the monthly FTR auctions. EKPC plans to hedge up to [REDACTED] of its FTR needs in the Long Term Auctions (3 year auctions), an additional [REDACTED] in the annual auctions (covering the delivery year from June 1 through May 31), an additional [REDACTED] in the quarterly auctions and the final [REDACTED] in the monthly auctions. This strategy allows EKPC to layer its exposure to different price points in the market and to take advantage of potential low-cost opportunity markets. It also allows EKPC to adjust its expected needs based on actual loads realized in the near term and adjust its expectations as needed, so that its FTR position is not over-hedged in the market. EKPC's strategy is to match its FTR position as closely to its load serving requirements as possible to minimize its exposure to congestion costs. Transmission congestion within the EKPC system has not been a significant issue since joining PJM.

Regarding Hedging Plans and Strategy for Market Prices for Capacity and Energy, EKPC's strategy is to fully hedge its price exposure in the capacity auction based on its load requirements and to sell all excess capacity for additional revenues. EKPC must purchase capacity based on its Net System Peak Load ("NSPL"). NSPL is based on EKPC's native load requirements coincident with the PJM summer peak load. EKPC will pay the same amount for its NSPL requirements on a \$/MW-Day basis as it sells its capacity. Thus, EKPC's price exposure is hedged in the capacity market as long as its generation available to sell is equal to or greater than its NSPL. EKPC realizes additional value from the capacity auction by having excess capacity to sell. EKPC is a price taker on the excess capacity it sells.

EKPC's strategy for hedging its energy prices is to actively manage its expected cost to serve and minimize its risk exposure to price spikes. EKPC models and reviews its energy price exposure on a monthly basis, looking forward three years. EKPC utilizes a production cost model to estimate its energy price exposure within the PJM market. The model considers the expected fuel and operations costs for the EKPC generation fleet and compares those to expected market prices. This comparison determines if EKPC's generation is economic to operate, provides an estimation of how much the EKPC generation fleet will run and defines how much EKPC can expect to pay for its load requirements. Based on the model results, EKPC identifies potential forward purchases or sales that could lower its expected risk profile of its energy costs. This data also provides a view for EKPC's fuel procurement process, which then determines how much fuel should be purchased to ensure adequate and cost effective supplies.

Additionally, EKPC's Market Operations Center follows load and energy market trends daily and identifies opportunities to lower its net operating costs during the Day Ahead and Real Time markets.



for the 2017/18 Base Residual Auction was \$120/MW-Day, which is closer to the original assumptions than the previous year's price.

[REDACTED] and the market indicates that the likelihood of this trend continuing makes sense.

June 1, 2013 through December 31, 2022

<u>Category</u>	<u>Costs (Original/Updated)</u>	<u>Benefits (Original/Updated)</u>
Administrative Costs	[REDACTED]	
Transmission Costs	[REDACTED]	
Trade Benefits		[REDACTED]
Capacity Benefits		[REDACTED]
Avoided PTP Transmission Charges		[REDACTED]
Subtotal	[REDACTED]	[REDACTED]
Net Benefits		[REDACTED]

This comprehensive annual report was established in the December 12, 2012 Order as a result of the Commission's concern that EKPC's membership in PJM created some degree of risk, particularly with respect to EKPC being granted sufficient transmission rights to be able to serve its own load without having to pay higher prices for energy due to transmission congestion. EKPC's application had included a request to participate in PJM's RPM, making it the first jurisdictional utility seeking such status. As a case of first impression, EKPC can appreciate the caution exercised by the Commission when it granted EKPC's request to participate in RPM. However, after three years of membership in PJM and participation in the RPM, EKPC believes it might be appropriate to revisit the requirements of the comprehensive annual report.

As part of the analysis of the prior year's benefits and costs of PJM membership, EKPC determines the Trade Benefits based on a modeling exercise that attempts to simulate what its operations would have looked like if EKPC had remained a stand-alone Balancing Authority. The analysis also models transmission costs based on a 400 MW firm transmission contract that is no longer in force. Thus, a significant portion of this analysis is based on operating conditions that no longer exist. In addition, the analysis of the projection of future benefits and costs of PJM membership is based on updating actual cost and benefit data into the original worksheet utilized to determine projected future benefits and costs. Some of the data in the original worksheet is now over four years old. The reasonableness and accuracy of this analysis becomes uncertain when mixing updated actual results with dated projections.

EKPC believes that its experience to date should adequately demonstrate the overall benefits of continued PJM membership. While the comprehensive annual report initially served as a means to evaluate the benefits of PJM membership, the reasonableness and accuracy of this

Ms. Talina R. Mathews

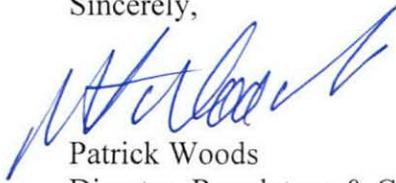
August 1, 2016

Page 5

annual evaluation becomes less certain when significant portions of the analysis are based on operating conditions and situations that no longer exist and the data included in the analysis is becoming stale. Those portions of the comprehensive annual report that reflect actual PJM results can be provided to the Commission through other venues or on an as needs to know basis. Consequently, EKPC respectfully requests that the Commission relieve EKPC from the filing of future comprehensive annual reports as detailed in the December 20, 2012 Order.

EKPC continues to believe that participation in PJM will allow it to realize long-term value for its Members. On behalf of EKPC, I would be delighted to address any further questions that the Commission might have with regard to either the data provided in this report or EKPC's request to be relieved from filing future such annual reports. Please feel free to contact me if you need any additional information.

Sincerely,



Patrick Woods

Director, Regulatory & Compliance Services

Enc.