

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF EAST KENTUCKY)
POWER COOPERATIVE, INC. TO TRANSFER)
FUNCTIONAL CONTROL OF CERTAIN) Case No. 2012-00169
TRANSMISSION FACILITIES TO PJM)
INTERCONNECTION, LLC)

**ATTORNEY GENERAL'S COMMENTS
IN LIEU OF TESTIMONY**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and tenders the following Comments regarding the above-styled matter.

A. EKPC Application

In April, 2010, the Liberty Consulting Group ["Liberty"], pursuant to Order of the Public Service Commission, conducted a Focused Management and Operations Audit of East Kentucky Power Cooperative, Inc. ["EKPC"]. The Liberty report recommended, *inter alia*, that EKPC should hire an independent consultant to determine the costs and benefits of ISO membership.¹ In that same year, EKPC began the process of undertaking such an evaluation. In 2011, following a competitive bidding process, EKPC selected Charles River Associates ["CRA"] to conduct an independent evaluation of the costs and benefits of fully participating in a regional transmission organization ["RTO"]. The CRA report concluded that if EKPC was to become a fully integrated

¹ Final Report, Liberty Consulting Group, p. 33 (April 20, 2010).

member of an RTO known as the PJM Interconnection, LLC ["PJM"],² the economic benefits would outweigh the associated costs.³

PJM is a federally regulated RTO which coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia. As such, PJM manages both the regional transmission system and the wholesale electricity market in its territory, and centrally dispatches its fully integrated members' power generation facilities in order to insure the reliability of the electric grid within its footprint. PJM dispatches approximately 185,600 MW of generating capacity over 62,591 miles of transmission lines. More than 60.1 million people live in the PJM region. PJM also administers and manages several other significant functions in order to insure reliability of the electric grid and its wholesale markets.⁴

EKPC believes that becoming a fully integrated member would yield many benefits to the company, its members and retail ratepayers, as the company would be allowed:

- (a) To immediately cancel a firm transmission reservation currently in effect with PJM for 400 MW of transmission rights, resulting in savings of \$7 million yearly through 2016;

² EKPC is already a limited member of PJM for limited, specific purposes. *See* Application, p. 2. Two other jurisdictional utilities, Kentucky Power Co. and Duke Energy Kentucky, Inc., are already fully integrated PJM members.

³ *See, e.g.*, Charles Rivers Associates Report, March 20, 2012, Executive Summary, p. 1, attached to Luciani testimony, Ex. RLL-2.

⁴ *See* application, pp. 7-8.

- (b) To more efficiently sell its excess energy due to less frequent transmission constraints, which currently occur due to limited availability of transmission into PJM's system;
- (c) To significantly reduce its capacity reserve margin of approximately 70 MW;
- (d) To generate less electricity, thus decreasing costs, while at the same time increasing its economic off-system purchases;
- (e) To reap savings by full participation in PJM's capacity market due to the fact that EKPC (which is a winter-peak utility) will be able to sell its excess power into PJM (the majority of whose members are summer peaking) at times when EKPC does not need it;
- (f) To defer new capacity additions;⁵ and
- (g) To maintain good credit ratings.⁶

All of these factors are expected to lead to savings to the 16 member cooperatives in the form of reduced fuel adjustment clause factors (savings of \$1 to \$3 per MWh), base rate reductions and/or deferral of base rate case increases, and increased equity.⁷ Those savings will in turn be passed on the retail customers.

The CRA report estimated that by joining PJM, EKPC would experience net savings over the associated costs of joining of approximately \$142 million. However, on September 10, 2012, EKPC filed an amended response to AG 1-31, attaching thereto a Supplemental Report from Charles Rivers Associates, which found that the projected

⁵ McNally testimony, pp. 3-4.

⁶ McNally testimony, p. 3.

⁷ McNally testimony, pp. 5-6.

net benefit of joining PJM had decreased from the previous level of \$142 million to approximately \$132 million.

The Attorney General believes that EKPC has met the burden of proving that the proposed transfer of its transmission system to PJM is for a proper purpose, and is consistent with the public interest, as mandated in KRS 278.218. The proposed transfer will not affect EKPC's level of service in an adverse manner; rather, it will save ratepayers money while at the same time allowing the company and its 16 member cooperatives to function in a more efficient manner, and enhance overall system reliability.⁸

B. Testimony of LG&E and KU

On October 1, 2012, Louisville Gas and Electric Company ["LG&E"] and Kentucky Utilities Company ["KU"] filed testimony in this matter recommending that "the Commission include in its final order a requirement that EKPC and PJM charge to the Companies transmission rates and charges calculated in the same manner they are today (though any new EKPC-owned transmission facilities would be included in the calculation) for transmission service necessary to serve the Companies' native-load customers."⁹ Further, LG&E and KU recommend that the Commission require EKPC to work in a collaborative way with LG&E, KU, the Tennessee Valley Authority and the other member companies that compose the Contingency Reserve Sharing Group.¹⁰

⁸ See, e.g., *Application for Approval of the Transfer of Control of Kentucky-American Water Co. to RWE, et al., Before the Kentucky Public Serv. Comm'n.*, Case No. 2002-00018, (Order Dated May 30, 2002, p. 7).

⁹ Testimony of Lonnie E. Bellar, p. 4, lines 15-19.

¹⁰ Testimony of Lonnie E. Bellar, p. 4, lines 19-22

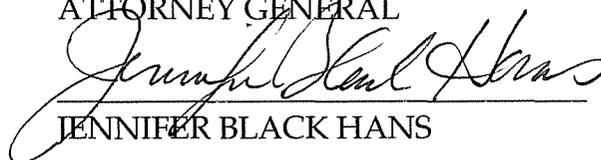
Pursuant to his authority under KRS 367.150(8), the Attorney General has plenary jurisdiction regarding the rates of service for all utilities in Kentucky. As such, the Attorney General is concerned with any impact that actions by one utility may have on the ratepayers of another utility. Therefore, the Attorney General encourages the parties to this matter, specifically EKPC and LG&E/KU, to develop mutually satisfactory conditions upon which all may agree and which will ensure that no harm will result to the transmission or rates for either utility's members or ratepayers.

CONCLUSION

WHEREFORE, the Attorney General recommends approval of EKPC's application to transfer function control of certain transmission facilities in the context of fully integrating its membership with PJM, subject to the conditions EKPC agreed upon in its application as well as any additional conditions upon which both EKPC and LG&E/KU can agree to ensure no harm to either utility's members or ratepayers, and subject to such other reasonable conditions as the Commission may impose. Further, the Attorney General, by and through his Office of Rate Intervention, reserves his right as intervenor in this proceeding to fully participate in the Informal Conference scheduled for October 12, 2012, and in any additional informal conferences and formal hearings scheduled in this matter.

Respectfully submitted,

JACK CONWAY
ATTORNEY GENERAL



JENNIFER BLACK HANS

DENNIS G. HOWARD, II
LAWRENCE W. COOK
ASSISTANT ATTORNEYS GENERAL
1024 CAPITAL CENTER DRIVE
SUITE 200
FRANKFORT KY 40601-8204
(502) 696-5453
FAX: (502) 573-8315

Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff DeRouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

Hon. Jason R. Bentley
McBrayer, McGinnis, Leslie & Kirkland
PLLC
305 Ann St.
Ste. 308
Frankfort, KY 40601

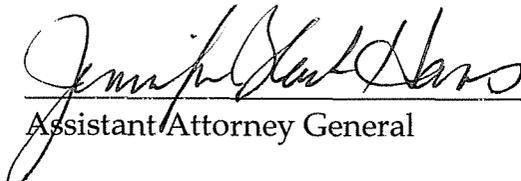
Mark David Goss
Frost, Brown, Todd, LLC
250 W. Main St.
Ste. 2800
Lexington, KY 40507

Hon. Michael L. Kurtz
Boehm, Kurtz & Lowry
36 E. 7th St.
Ste. 1510
Cincinnati, OH 45202

Allyson K. Sturgeon
Senior Corporate Attorney
LG&E and KU Services Company
220 W. Main St.
Louisville, KY 40202

Ann F. Wood
East Kentucky Power Cooperative, Inc.
P. O. Box 707
Winchester, KY 40392-0707

This 3rd day of October, 2012


Assistant Attorney General