



A Touchstone Energy Cooperative 

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COMMISSION

July 29, 2022

Ms. Linda Bridwell
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. Bridwell:

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 ARR revenue 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 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.

4775 Lexington Road, POB 707
Winchester, KY 40392
859-744-4812

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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. 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), accompanying this letter as part of EKPC's electronic submission is a copy of the Annual Report in electronic medium with those portions redacted for which confidentiality is sought. Pursuant to the Commission's March 24, 2020 Order in Case No. 2020-00085, EKPC is submitting the confidential material to the Commission via an email to PSCED@ky.gov with a read receipt.

Please do not hesitate to contact me if you have any questions or concerns.


Very truly yours,

A handwritten signature in black ink, appearing to read "Roger Cowden", written in a cursive style.

Roger Cowden

Enclosure



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July 29, 2022

Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
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Attn: Ms. Linda Bridwell, 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. Bridwell,

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, and as modified by the September 30, 2021 and May 25, 2022 Orders in Case No. 2021-00103 (collectively, the “Orders”), 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 delivery year June 1, 2021 through May 31, 2022 (“delivery year”). 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 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 2021. The ARR 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 are the auction results with the amount of Financial Transmission Rights (“FTRs”) that EKPC had in total during the delivery year. 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., Monday through Friday, plus the entire 24 hours on Saturday and Sunday. For the delivery year, EKPC estimates roughly a [REDACTED] benefit to its members of having ARR and FTRs. These savings have been included in the Trade Benefits described later in this report.

Description of Hedging Plans and Strategies

Transmission congestion within the EKPC system has been counter intuitive because of a significant amount of negative congestion. In 2018, EKPC hired a consultant, The Brattle Group, to further investigate the underlying reasons for the negative congestion and to develop a comprehensive strategy for managing the congestion cost exposure. Rather than follow a set hedging strategy of [REDACTED] of its FTR needs in the Long Term Auctions (3-year auctions), an additional [REDACTED] in the annual auctions (covering the delivery year), an additional [REDACTED] in the quarterly auctions, and the final [REDACTED] in the monthly auctions, the study proved it would be more beneficial to hold the ARR's and collect those revenues and only purchase FTRs in the monthly auctions when positive congestion is likely either due to binding constraints or planned transmission outages. Each month, planned transmission outages are evaluated using a power flow analysis tool to identify if congestion is likely to be positive or negative and if any of the outages will result in a binding constraint. Based on this analysis, bids are developed for the monthly FTR auctions. EKPC plans to follow this strategy until there is a fundamental change in the PJM system that indicates positive congestion will occur for EKPC. The goal is to match EKPC's expected transmission congestion position as closely to its load serving requirements as possible to minimize its exposure to congestion costs.

Regarding Hedging Plans and Strategy for Market Prices for Capacity and Energy, EKPC's strategy is to fully hedge its capacity price exposure in PJM's Reliability Pricing Model ("RPM") capacity auctions 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 generally 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'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 (RTSim – the same model used for its Integrated Resource Plan analysis) 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 Balancing markets.

Prior Year’s Benefits and Costs of PJM Membership

In the following table, EKPC identifies its costs and benefits from the delivery year. The Administrative Costs and Transmission Costs are based on accounting entries in EKPC’s General Ledger and reflect actual billed PJM expenses. Trade Benefits are based on a detailed modeling effort. EKPC utilized its RTSim model and simulated what its operations as a stand-alone Balancing Authority would have cost, then compared that to the actual costs of operating in PJM. EKPC modeled actual loads, actual prices, actual generating unit availability statistics, and estimated transmission availability from outside resources. This methodology is similar to the methodology utilized in the study completed and entered into EKPC’s request to the Commission to join PJM. Capacity Benefits are based on the actual cleared PJM RPM results and are shown on the monthly PJM invoice. The Avoided Point-to-Point Transmission Charges are based on the contract that EKPC had with PJM to purchase 400 MW of firm transmission and the published tariff rate associated with that purchase, but does not include any additional charges for actual energy transactions on the transmission. The results are included in the following table for the delivery year.

June 1, 2021 through May 31, 2022

<u>Category</u>	<u>Costs (in millions)</u>	<u>Benefits (in millions)</u>
Administrative Costs	█	
Transmission Costs	█	
Trade Benefits		█
Capacity Benefits		█
Avoided PTP Transmission Charges		█
Subtotal	█	█
Net Benefits		█

Concerning the PJM capacity market benefits, in its December 20, 2012 Order in Case No. 2012-00169 (“PJM Order”), the Commission conditioned its approval of the transfer of functional control of EKPC’s transmission facilities to PJM upon EKPC agreeing to file by November 30, 2015 a rate mechanism to flow back to End-Use Retail Members (“retail members”) the PJM capacity market benefits. EKPC agreed to this requirement and filed Case No. 2015-00358 on October 30, 2015. As a result of discussions with the parties to that case, on August 8, 2016 EKPC filed a unanimous Stipulation and Recommendation (“Stipulation”) that included a resolution of how to handle the PJM capacity market benefits. Under the terms of the Stipulation, EKPC would continue to record the capacity market benefits actually realized during the accounting periods as revenues. EKPC would also record as expenses during the appropriate accounting periods its PJM capacity market costs. Beginning on January 1, 2017 EKPC would also begin, for accounting purposes, to amortize the Smith 1 regulatory asset, net of expected mitigation and salvage efforts, for a ten-year amortization period. In its January 10, 2017 Order in Case No. 2015-00358, the Commission found the “Smith Solution” to be a reasonable

proposal to effectuate a mechanism to flow the capacity benefits to the retail members of EKPC's Owner-Member Cooperatives. In compliance with the Stipulation and the Commission's Order, EKPC began the amortization for accounting purposes of the Smith 1 regulatory asset on January 1, 2017 and the actual net PJM capacity market benefits are providing a partial recovery of the amortization.

Projection of Future Benefits and Costs of PJM Membership

The Order dated September 30, 2021 in Case No. 2021-00103 directed EKPC to eliminate this section of the report.

Benefits and Costs for EKPC to Leave PJM

The Order dated September 30, 2021 in Case No. 2021-00103 directed EKPC to consider the benefits and costs for EKPC to leave PJM. Those benefits and costs would mirror the previous table shown under Prior Year's Benefits and Costs of PJM Membership and show a cost of \$[REDACTED] million at a minimum. EKPC is currently able to cover its winter peak load plus a minimal reserve margin because the PJM RTO has more than 20% capacity reserves during the winter peak period. As a stand alone entity, EKPC previously planned to maintain a minimum of 12% capacity reserve margin in the winter. EKPC would have to purchase and/or construct additional capacity to maintain an acceptable winter peak operating reserve level. In addition, there would be costs to join a regional reliability group to maintain NERC operational requirements. EKPC would also lose the ability to optimize its dispatch within the PJM market, which means it would lose the trade benefits that were identified. There could be additional costs that have not been explored in detail.

EKPC continues to believe that participation in PJM will allow it to realize long-term value for its owner-members. On behalf of EKPC, I am available to address any further questions that the Commission might have with regard the data provided in this report. Please feel free to contact me if you need any additional information.

Sincerely,



Chris Adams
Director, Regulatory & Compliance Services

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