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NEWS RELEASE

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PSC Rejects South Kentucky RECC Power Purchase *Commission says deal with power marketer violates obligation to purchase electricity from East Kentucky Power Cooperative*

FRANKFORT, Ky. (Sept. 27, 2018) – The Kentucky Public Service Commission (PSC) has rejected a proposal by South Kentucky Rural Electric Cooperative Corp. to enter into a long-term agreement to purchase power through Morgan Stanley Capital Group, Inc.

In an order issued today, the PSC found that the deal with Morgan Stanley violates South Kentucky's obligation to purchase most of its electricity from the East Kentucky Power Cooperative (EKPC). South Kentucky is one of 16 distribution cooperatives that own and purchase power from EKPC.

Under the proposed 20-year deal, South Kentucky would have supplied about 40 percent of its normal load through Morgan Stanley. South Kentucky argued that the power purchase would have produced savings that would be passed on to its retail customers.

South Kentucky contended that the purchase of power from an outside party was permissible under a memorandum of understanding (MOU) reached by EKPC and its member distribution cooperatives governing such purchases. The MOU sets limits on both individual and aggregate purchases.

EKPC, which intervened in the case, argued that allowing South Kentucky to purchase significant amounts of power from outside EKPC would shift EKPC's operating costs to the other distribution cooperatives. EKPC also contended that South Kentucky had miscalculated the claimed cost saving from the Morgan Stanley agreement.

Of the other 15 EKPC member cooperatives, which all participated in the case either jointly or individually, all but one opposed the South Kentucky proposal. Their principal concern was cost shifting.

Other parties to the case included the Kentucky Office of Attorney General, which argued that South Kentucky did not fully explore the consequences of its power purchase plan, that South Kentucky did not show a need for outside power purchases and that costs would be shifted to other cooperatives. Nucor Steel Gallatin also was a party to the case, opposing the power purchase on similar grounds.

The PSC conducted a hearing in the case from May 15 through May 17.

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PSC Rejects South Kentucky RECC Power Purchase – Page 2

In today's order, the PSC said that South Kentucky had failed to demonstrate that it needs to purchase power from outside EKPC in order to adequately serve its customers. The PSC also found that South Kentucky had underestimated the full cost of the power purchase and failed to fully consider financial risks associated with the Morgan Stanley deal.

The PSC also found that allowing South Kentucky to purchase power through Morgan Stanley would shift costs to the other 15 EKPC member cooperatives. The shifted costs would total between \$15.9 million and \$18.3 million annually, and would be discriminatory.

Finally, today's order terminated the MOU between EKPC and its 16 member cooperatives regarding outside power purchases. The MOU, while resolving a three-year-long-standing dispute regarding power purchases from outside parties, was never the subject of a full review by the commission, the PSC said in today's order.

When the MOU was filed at the PSC in 2015, there was no expectation that a cooperative would purchase anything beyond modest amounts of power from small generating facilities, the PSC said. But, as written, the MOU enables a single cooperative to purchase significant amounts of third-party power while shifting costs to the other cooperatives, the PSC found.

Today's order nullifies the MOU and prohibits further efforts by individual cooperatives to purchase power from outside the EKPC system.

Commissioner Talina Mathews dissented from the decision to bar future outside power purchases, saying that the MOU should be rewritten to set lower limits on each cooperative's purchases, giving all of the 16 EKPC members an equal opportunity to purchase small amounts of outside power to support reliability and local economic development.

The PSC also admonished EKPC and the cooperatives for their lack of cooperation in resolving disputes over issues such as power purchases. The PSC said that many filings in the case "contain harsh invective and accusations of improper motives tossed about like business cards at a networking event."

Noting that EKPC's corporate governance requires decisions be unanimous, the PSC suggested that removing the ability of a single cooperative to block decisions could encourage greater cooperation.

Today's order, videos of the hearing, and other records in the case are available on the PSC website, psc.ky.gov. The case number is 2018-00050.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

-30-

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