

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE FILING OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR APPROVAL OF THE)	CASE NO.
TRANSFER OF OPERATIONAL CONTROL OF)	2002-00327
CERTAIN TRANSMISSION FACILITIES TO THE)	
MIDWEST INDEPENDENT SYSTEM OPERATOR)	

FIRST REQUEST OF COMMISSION STAFF TO
EAST KENTUCKY POWER COOPERATIVE, INC.

East Kentucky Power Cooperative Corporation (East Kentucky) is requested, pursuant to Administrative Regulation 807 KAR 5:001, to file with the Commission on or before October 16, 2002, the original and eight copies of the following information, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to Exhibit 1, page 3 of the application. The response to question 7 indicates that three options were considered based primarily on regional proximity, the Alliance Independent System Operator (ISO), the Public Power Regional Transmission Group (PPRTG) and the Midwest Independent System Operator

(MISO). Explain if the Pennsylvania-New Jersey-Maryland group (PJM) was excluded from consideration prior to this point in time and, if so, identify the factors that eliminated PJM from consideration.

2. Refer to Exhibit 1, page 7 of the application. The response to question 14 indicates that MISO will compensate East Kentucky for construction consistent with the Transmission Tariff. Explain how East Kentucky intends to protect native load customers from paying for transmission improvements that are needed by the Regional Transmission Organization (RTO) for capacity or reliability reasons, but will be of little, if any, benefit to native load customers.

3. Refer to the answer to question 5 in the Prepared Testimony of Paul C. Atchison (the Atchison Testimony). The answer indicates that East Kentucky believes RTOs are good for East Kentucky and the industry with one of the reasons being lower costs. Later in the same answer, Mr. Atchison indicates that increases in market size, as well as increases in the distance that power can be transmitted economically, will help East Kentucky purchase power at lower costs.

a. Given that East Kentucky and the utilities with which it is interconnected are located in a region dominated by low-cost coal-fired generation, explain in detail how East Kentucky will be able to purchase power at lower costs due to its membership in an RTO.

b. If the response to part (a) pertains to the elimination of transmission rate pancaking, explain whether the anticipated reduction in transmission charges for such purchases is expected to result in power purchases that originate further beyond

its border being lower cost than the power it traditionally purchases from those entities with which it is interconnected.

c. Provide any analysis East Kentucky has performed which shows that membership in an RTO will result in power purchases being available at lower cost than the cost it incurs in purchasing from the systems with which it is interconnected.

d. Explain how membership in MISO will result in increased reliability for East Kentucky.

4. Refer to the answer to question 9 in the Atchison Testimony. The first sentence states that East Kentucky will be transferring operational control of its 138, 161, and 345 kV transmission facilities to MISO. The next sentence then states that only 69 kV transmission facilities which impact bulk power transfers will be under MISO control. The two sentences seem to be inconsistent.

a. Clarify whether control of 69 kV facilities will remain with East Kentucky or be transferred to MISO.

b. If certain 69 kV facilities are to be transferred to MISO's control, has East Kentucky identified the 69 kV facilities that will be transferred? If so, provide an analysis of those facilities.

c. Explain whether East Kentucky applied the Federal Energy Regulatory Commission's (FERC) 7-factor test when determining which transmission facilities would transfer to MISO. If yes, provide the results. If no, explain why not.

5. Refer to the answer to question 10 in the Atchison Testimony. Provide the annual cost savings that East Kentucky will realize as a result of MISO performing the operational functions listed in the response.

6. Based on the list of functions that MISO will provide for East Kentucky, describe in detail how the facilities of East Kentucky that are currently used to perform these functions will be used by East Kentucky after MISO is fully functional. If any of the facilities will no longer be used, describe those facilities and why they will not be useful with MISO membership.

7. Refer to the answers to questions 11 and 16 in the Atchison Testimony.

a. The Notice of Proposed Rulemaking (NOPR) on Standard Market Design (SMD) issued by the FERC on July 31, 2002 proposes to eliminate drive-through and drive-out revenues. Explain how the results of such elimination would impact East Kentucky s economic analysis of its membership in MISO (Application Exhibit 6).

b. The answer to question 16 in the Atchison Testimony indicates that, based on its initial evaluation of the SMD NOPR, East Kentucky remains committed to becoming a member of MISO. Provide, in narrative form, the results of the initial evaluation of the SMD NOPR performed by East Kentucky.

c. Describe the nature of East Kentucky s ongoing or expected future evaluation of the FERC SMD NOPR.

8. East Kentucky states that its application for membership in the MISO is contingent upon various approvals and determinations. Prepare a schedule identifying each approval and determination in conjunction with East Kentucky s membership in the MISO. Provide the status of each approval and determination and the written information submitted in support of the request.

9. The answer to question 15 in the Atchison Testimony indicates that East Kentucky must also apply to the Rural Utilities Service (RUS) for approval of its proposed membership in MISO. Provide the status of that request and the written information submitted to RUS in support of the request.

10. Refer to Exhibit 5 of the application. Visual inspection of the map indicates that many of the facilities do not appear to be looped, but this may be due to omission of other East Kentucky facilities. Provide a revised map which makes this more clear.

11. Refer to Exhibit 6 of East Kentucky s application.

a. Explain whether East Kentucky performed an economic justification similar to the MISO Economic Justification for PPRTG or any other Regional Transmission Group (RTG) or RTO during its RTO decision process. Provide all other economic justifications that were performed.

b. It appears that membership savings through MISO primarily occur during 2003 and 2004, due to expected purchases of power during those years. Discuss the impact that decreased demand during those years due to mild weather or other reasons would have on projected net value savings.

12. Refer to the Application, Exhibit 7, the MISO FERC Electric Tariff, Original Sheet No. 17.

a. Has MISO made its filing with the Internal Revenue Service (IRS) for recognition of exemption from federal taxation pursuant to Section 501?

b. What is the status of that exemption request?

c. If a ruling has not yet been received from the IRS, when is a decision expected?

13. Refer to the Application, Exhibit 7, the MISO FERC Electric Tariff, Original Sheet No. 58. The tariff states that transfer of operational control of the transmission system from the owners to MISO shall not take place until MISO can demonstrate that it is functionally ready to take over the provision of transmission service. Explain whether East Kentucky has discussed a timeframe for transfer of control with MISO and, if so, provide a timeline that sets out the transfer process.

14. Refer to the Atchison Testimony, page 6, question 12, and Exhibit 7, the MISO FERC Electric Tariff, Original Sheet No. 78.

a. In listing the costs of membership in the MISO, explain why Mr. Atchison did not include the \$1,000 annual fee to remain a member.

b. Did East Kentucky include this additional annual fee in its analysis of joining the MISO? Explain the response.

15. Refer to the answer to question 12 in the Atchison Testimony. Mr. Atchison states that MISO will be able to order generation redispatch and load curtailment consistent with the Transmission Tariff. By joining MISO, will East Kentucky be giving up its ability to economically dispatch its generating units as it sees fit? Explain the response.

16. Refer to the answer to question 12 in the Atchison Testimony. Mr. Atchison lists the costs of membership in MISO and states that the administrative fees are capped at 11 cents per KW month. Is this the Schedule 10 charge? If yes,

reconcile the amount of the cap as stated in the Atchison Testimony with the cap of 15 cents per KW month in the tariff.

17. Provide a schedule showing the original cost and accumulated depreciation for East Kentucky's transmission facilities that will be subject to the operational control of MISO. The schedule should reflect the financial information as of the most recent monthly financial statement. The schedule should list the transmission facilities by FERC account number and within each account number indicate whether the facility is 345, 161, 138, or 69 kV. As an alternative, East Kentucky can provide the original cost and accumulated depreciation information by individual transmission line, using the presentation included in its 2001 FERC Form No. 1, page 422.

18. Concerning the operation and maintenance expenses associated with East Kentucky's transmission facilities:

a. Provide a schedule by FERC account number showing the operation and maintenance expenses as of the most recent 12-month income statement.

b. Identify the operation and maintenance expenses listed in the response to part (a) that will be eliminated or reduced as a result of joining the MISO. For each expense eliminated or reduced, indicate the expected amount of the expense reduction.

c. Provide a detailed schedule listing all annual MISO costs that East Kentucky expects to report as expenses. The schedule should describe the nature of the cost, how the amount expensed is determined, and the assumptions used to determine the level of costs.

d. Using the most recent 12-month income statement and the information provided in the responses to parts (a) through (c), determine the annual impact of joining the MISO on East Kentucky's net margins and Times Interest Earned Ratio.

19. Assume for purposes of this question that East Kentucky has contracted with Wabash Valley Power (Wabash) to make a one-time purchase of 100 MW of power.

a. Prior to the formation of MISO, describe the steps East Kentucky would have had to undertake to get this purchase transmitted from Wabash. If possible, include an estimate of the transmission costs East Kentucky would have incurred in conjunction with this purchase.

b. Describe the steps East Kentucky would have to undertake as of September 1, 2002 to get this purchase transmitted from Wabash. Include an estimate of the transmission costs East Kentucky would have incurred in conjunction with this purchase.

c. Describe the steps East Kentucky would undertake to get this purchase transmitted from Wabash, assuming East Kentucky becomes a member of MISO. Include an estimate of the transmission costs East Kentucky would incur in conjunction with this purchase.

d. Assume the purchase was for 100 MW per month for a 3-year period from Wabash. Other than the transmission costs occurring every month, indicate whether the responses provided for parts (a) through (c) would be different. Explain all differences.

20. Assume for purposes of this question that East Kentucky is a member of MISO:

a. Describe all costs East Kentucky would expect to incur when buying and transmitting power from another MISO entity.

b. Describe all costs East Kentucky would expect to incur when buying power from a non-MISO entity, but transmitting that purchase through the MISO.

c. Describe all transmission costs that a MISO entity would expect to incur if that entity bought power from East Kentucky.

d. Describe all transmission costs that a non-MISO entity would expect to incur if that entity bought power from East Kentucky, but transmitted the power through the MISO.

21. Refer to the Application, Exhibit 4, page 20 of 35.

a. Describe the status of MISO resolving the 85/15 member revenue test.

b. Has East Kentucky or any other electric cooperative member of MISO sought and received a ruling from the IRS concerning the 85/15 member revenue test? Explain the response.

22. Provide an organizational chart for the MISO as it is currently configured. Include all boards and committees described in Exhibit 7, the MISO FERC Electric Tariff.

23. Provide MISO's most current balance sheet and 12-month income statement.

24. If East Kentucky does join the MISO, will it be able to participate on the MISO boards or committees? If yes, indicate the boards or committees, describe the function of the board or committee, and the number of positions East Kentucky could have.

25. Refer to the Application, Exhibit 7, the MISO FERC Electric Tariff, Appendix C, First Revised Sheet No. 119.

a. Describe the pricing of transmission services during the 6-year transition period.

b. Based on current expectations, describe the pricing of transmission services after the 6-year transition period.

c. Based on current expectations, describe the impact of the post-transition period pricing on East Kentucky.

26. Refer to the Application, Exhibit 7, the MISO FERC Electric Tariff, Appendices C-2 and C-3, Original Sheet Nos. 130a through 130e. Describe the impact, if any, on East Kentucky of the Super-Regional Rate Adjustment Charge and the Revenue Distribution for the MISO Regional Through and Out Rate.

27. Assume for purposes of this question that East Kentucky does join the MISO. Describe the operational, functional, and organizational changes membership in the MISO would produce at East Kentucky.

28. Provide a schedule showing the amount of revenue received by East Kentucky in each year since 1996 for transmission service to customers other than its member distribution cooperatives.

29. Assuming that East Kentucky joins MISO, explain the anticipated impact to East Kentucky's revenues from transmission service to customers other than member distribution cooperatives.

30. During the MISO zonal rate transition period, will all of East Kentucky's transmission assets remain in its Kentucky jurisdictional rate base for rate-making purposes? If no, explain the response. If yes, explain what changes, if any, will occur at the expiration of the MISO rate transition period.

31. The MISO has recently filed Schedules 16 and 17 with FERC to recover additional administrative expenses. It also plans to recover FERC regulatory fees via a transmission charge.

a. Provide a thorough explanation of the impact of these schedules on East Kentucky's cost of participation in MISO.

b. Provide an analysis showing what the impact on EKPC would be if these new charges are approved.

c. Explain in detail the impact these additional costs will have on East Kentucky's decision to join MISO.

32. Explain the ramifications to East Kentucky of failing to consummate the joining of MISO on November 1, 2002.

33. Provide details including cost estimates of any new facilities East Kentucky will have to construct to participate in MISO when it is fully functional.

34. Provide an explanation of how East Kentucky will benefit from the plans of MISO and the Southwest Power Pool (SPP) to join PJM in a single market design structure (MISO/PJM/SPP SMD) within the next several years. Also, describe the cost

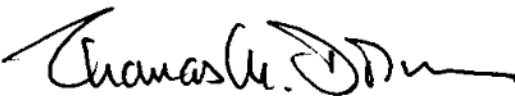
that East Kentucky will incur in the future to provide for MISO's participation in the MISO/PJM/SPP SMD.

35. Four options were considered in the study performed by East Kentucky to evaluate whether to join the MISO. Did East Kentucky ever consider an option to join other transmission owners in Kentucky to form an independent transmission company that could join MISO under the MISO FERC Electric Tariff's Appendix I?

a. If yes, provide details of any discussions or analysis regarding this option.

b. If no, explain why this would not be a viable option to consider.

36. Refer to the Application, Exhibit 4, page 24 of 35. East Kentucky provided a schedule showing a numerical evaluation for the PPRTG and MISO RTOs. Provide details of how the point determination was made in each of the categories that the RTO did not receive the maximum score.



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cc: All Parties