**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

| | | |
|---|---|---|
| **APPLICATION OF SOUTH KENTUCKY RURAL** | ) | |
| **ELECTRIC COOPERATIVE CORPORATION** | ) | **CASE NO.** |
| **FOR APPROVAL OF MASTER POWER PURCHASE** | ) | **2018-00050** |
| **AND SALE AGREEMENT AND TRANSACTIONS** | ) | |
| **THEREUNDER** | ) | |

**RESPONSES TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.**

**DATED APRIL 20, 2018**

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

| | | |
|---|---|---|
| **APPLICATION OF SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION FOR APPROVAL OF MASTER POWER PURCHASE AND SALE AGREEMENT AND TRANSACTIONS THEREUNDER** | ) ) ) ) ) | **CASE NO. 2018-00050** |

**CERTIFICATE**

**STATE OF KENTUCKY )**
**)**
**COUNTY OF CLARK )**

David Crews, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Commission Staff's First Request for Information in the above-referenced case dated April 20, 2018, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

David Crews

Subscribed and sworn before me on this 27th day of April 2018.

Gwyn M. Willoughby #590567
Notary Public

GWYN M. WILLOUGHBY
Notary Public
Kentucky – State at Large
My Commission Expires Nov 30, 2021

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

| | | |
|---|---|---|
| **APPLICATION OF SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION FOR APPROVAL OF MASTER POWER PURCHASE AND SALE AGREEMENT AND TRANSACTIONS THEREUNDER** | ) ) ) ) ) | **CASE NO. 2018-00050** |

## CERTIFICATE

**STATE OF KENTUCKY** )
)
**COUNTY OF CLARK** )

Mike McNalley, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Commission Staff's First Request for Information in the above-referenced case dated April 20, 2018, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

[signature]

Subscribed and sworn before me on this 27th day of April 2018.

[signature] #580567
Notary Public

GWYN M. WILLOUGHBY
Notary Public
Kentucky – State at Large
My Commission Expires Nov 30, 2021

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

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|---|---|---|
| **APPLICATION OF SOUTH KENTUCKY RURAL** | ) | |
| **ELECTRIC COOPERATIVE CORPORATION** | ) | **CASE NO.** |
| **FOR APPROVAL OF MASTER POWER PURCHASE** | ) | **2018-00050** |
| **AND SALE AGREEMENT AND TRANSACTIONS** | ) | |
| **THEREUNDER** | ) | |

**CERTIFICATE**

**STATE OF KENTUCKY** )
)
**COUNTY OF CLARK** )

Don Mosier, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Commission Staff's First Request for Information in the above-referenced case dated April 20, 2018, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

Don Mosier

Subscribed and sworn before me on this 27th day of April 2018.

Gwyn M Willoughby #590567
Notary Public

GWYN M. WILLOUGHBY
Notary Public
Kentucky – State at Large
My Commission Expires Nov 30, 2021

**EAST KENTUCKY POWER COOPERATIVE, INC.**
**PSC CASE NO. 2018-00050**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 04/20/18**
**REQUEST 1**
**RESPONSIBLE PARTY: David Crews**

**Request 1.** Provide a status update on the negotiations being made regarding the agency agreement between EKPC and South Kentucky Rural Electric Cooperative Corporation ("South Kentucky").

**Response 1.** An agency agreement with South Kentucky has not been negotiated. On October 31, 2017, Greg Shepler of EnerVision contacted David Crews via email to confirm that the agency fee for South Kentucky would be similar to the administration fees in EKPC's Cogeneration Tariff. David Crews responded that the methodology for the Cogeneration Tariff rate would be the same methodology used to determine the expenses for an agency agreement. Briefly, the methodology for the Cogeneration Tariff fees is to assign expenses based on a ratio share of associated MWhrs (load and generation). David Crews received a voice mail from Dennis Holt on April 23, 2018 inquiring about his opinion on whether South Kentucky and EKPC should pursue an agency agreement or wait on an order from the Commission. David Crews responded on April 24, 2018 that EKPC was ready to work with South Kentucky on the agency agreement. While there have been several emails related to the agency agreement, the last time

South Kentucky contacted EKPC prior to the April 23, 2018 voice mail was a January 30, 2018 letter confirming that South Kentucky intends to utilize EKPC as its agent and follow Section 5.E.vii of the Memorandum of Understanding ("MOU"). There have been no substantive discussions related to the agency agreement. However, it should be clear to all parties, EKPC is not intending to perform any of South Kentucky's administrative and accounting duties associated with the settlements between South Kentucky and Morgan Stanley. South Kentucky will solely be responsible for all financial settlements and re-settlements of the Morgan Stanley capacity and energy contracts.

**EAST KENTUCKY POWER COOPERATIVE, INC.**
**PSC CASE NO. 2018-00050**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 04/20/18**
**REQUEST 2**
**RESPONSIBLE PARTY: Don Mosier**

**Request 2.** Refer to the Direct Testimony of Don Mosier, page 4, lines 7-11, which discusses certain risks regarding the Alternative Source. Explain in detail what "regulatory, market and economic risk[s]" are anticipated, the factors that determine whether and to what extent regulatory, market and economic risks will arise, the likelihood of each risk identified, and the anticipated effect.

**Response 2.** In my testimony, page 7, lines 10 – 21, page 8 and page 9, lines 1 – 3, I provide pertinent examples of the regulatory and market risks that *will*, not may, occur.

Economic risk will arise from the credit and collateral exposure both counterparties have in the 20-year life of the two transactions. Variations in credit quality of any counterparty over such a long period, coupled with interest rate risk and market price changes (impacting mark-to-market), will necessarily arise putting pressure on smaller, less capitalized and less financially robust counterparties like South Kentucky. It is important to quantify this risk and measure it against each counterparty's ability to afford the worst likely case, not just the average or best case.

In addition, the financial derivative hedge South Kentucky purchased per the Capacity Confirm creates unnecessary and avoidable exposure to economic risk. Section 4 of the Capacity Confirm puzzlingly references the EEI Master Power Purchase and Sale Agreement instead of the International Swaps and Derivatives Association ("ISDA") document that both parties signed, and is applicable to such forms of derivative transactions. EEI Master Agreements pertain to products with physical attributes, not derivative products that are handled under ISDA's. For whatever reason, South Kentucky desired to settle on a fixed price hedge to its as yet unpurchased capacity price exposure, which price point is jeopardized by the agreement's Change in Law provisions. See also EKPC's Response to South Kentucky's First Request for Information, Request 17a.

**EAST KENTUCKY POWER COOPERATIVE, INC.**
**PSC CASE NO. 2018-00050**
**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 04/20/18**
**REQUEST 3**
**RESPONSIBLE PARTY: Mike McNalley**

**Request 3.** Refer to the Direct Testimony of Michael McNalley, page 9, lines 4-12, which discusses potential changes to EKPC's rate structure regarding cost allocation. Mr. McNalley states that EKPC may propose revised rates that are "non-bypassable."

**Request 3a.** Explain what rate design changes may be proposed by EKPC.

**Response 3a.** EKPC will exercise every available and appropriate option in its effort to provide fairness for all EKPC owner-members. EKPC may evaluate new rate designs with the intent of preventing future cost shifting as a result of Amendment 3 notices or similar actions. These might take the form of a fixed monthly capital recovery charge, for example, or other rate design(s) intended to ensure that distribution cooperatives pay their fair share of all long-term cost commitments EKPC makes to serve its load. This effort is in preliminary internal discussion stages. Significant research and analyses will be necessary, followed by Board authorization, prior to making any proposal to the Commission.

**Request 3b.** State whether EKPC intends to design rates to assign any or all of the stranded costs to South Kentucky only.

**Response 3b.** EKPC has no such intent. Our efforts in rate design would be to ensure that all owner-members are treated fairly and pay appropriately designed, legal rates so that cost shifting and stranded costs are avoided or at least minimized. Thus, any proposed change to our rate design would apply to all owner-members.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2018-00050**

**RESPONSE TO INFORMATION REQUEST**

**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION DATED 04/20/18**
**REQUEST 4**
**RESPONSIBLE PARTY:** **David Crews**

**Request 4.** Refer to South Kentucky's response to Commission Staff's First Request for Information, Item 13. Explain in detail EKPC's reason for requiring South Kentucky to become a member of PJM and identify the document containing this requirement.

**Response 4.** EKPC did not require that South Kentucky become a member of the PJM Interconnection, LLC ("PJM"). EKPC joined PJM as of June 1, 2013 and the MOU was agreed to by the owner-members during the summer of 2015. The owner-members intentionally placed a number of requirements for Alternate Sources delivered across the transmission system in Section 5.E of the MOU. The owner-members acknowledged in section 5.E.iv of the MOU that Alternate Sources would be subject to the PJM policies and rules of PJM.

EKPC serves its owner-members through the Wholesale Power Contract ("WPC"). The WPC is a bundled contract that provides transmission and generation services to its members. When an owner-member gives notice for an Alternate Source, EKPC is no longer responsible for serving that load or the Alternate Source within the WPC. The energy and the load related to that Alternate Source are no longer within the umbrella of the WPC and no longer within the umbrella of EKPC's membership in PJM.

When EKPC joined PJM, it turned over functional control of its transmission system to PJM. All of EKPC's load is within PJM and PJM administers EKPC's Open Access Transmission Tariff ("OATT"). As stated above, the 58 MWs of South Kentucky load no longer resides within the confines of the WPC as a result of South Kentucky's Alternate Source election and becomes orphaned load within PJM from a membership perspective. Load in PJM takes transmission service per the FERC-approved OATT. To serve load with PJM, a party is required to execute an OATT Attachment Q (credit policy), a Reliability Assurance Agreement and an Operating Agreement. It is these aforementioned agreements that requires South Kentucky to become a member of PJM to serve its load within the PJM footprint. For example, Attachment Q requires becoming a Market Participant to transact in the PJM market. South Kentucky has to become a member to facilitate its decision to take its load outside the WPC. The structure of the power purchase agreement with Morgan Stanley necessitates that South Kentucky be a PJM member and, thus, PJM membership is an express requirement in the Morgan Stanley contract. (See also email from David Crews to Carter Babbit on November 15, 2017 albeit not to this level of detail. Dennis Holt, Lynne Travis, Alisa Ellington and Mark David Goss were also copied).