

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the matter of: : CASE NO: 2018-00050

THE APPLICATION OF SOUTH KENTUCKY
RURAL ELECTRIC COOPERATIVE CORPORATION
FOR APPROVAL OF MASTER POWER
PURCHASE AND SALE AGREEMENT
AND TRANSACTIONS THEREUNDER

**RESPONSE OF SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE
CORPORATION TO COMMISSION STAFF'S
SECOND REQUEST FOR INFORMATION**

Respectfully submitted,

/s/Matt Malone

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CERTIFICATE OF SERVICE

Pursuant to 807 KAR 5:001 Section 6, the undersigned certifies that consistent with 807 KAR 5:001 Section 4(8)(d)(3), a copy of this document has been electronically served upon the following:

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This 5th day of April, 2018.

/s/Matt Malone

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South Kentucky Rural Electric Cooperative Corporation

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Commission Staff's Second Request for Information

1. Refer to South Kentucky's response to Commission Staff's First Request for Information ("Staff's First Request"). Items 3, 13, and 15 which state that East Kentucky Power Cooperative (EKPC) required South Kentucky to become a PJM Interconnection, LLC ("PJM") member as a condition of exercising Amendment 3 and Memorandum of Understanding ("MOU") rights. Explain the basis for EKPC's requirement.

Response:

South Kentucky is unaware of the specific factors that EKPC took into consideration in making its determination that South Kentucky must become a PJM member. The fact of the requirement was communicated to South Kentucky on July 24, 2017 (See Attachment DC#4 Pages 50 – 58), and subsequently reiterated by David Crews, EKPC Senior V.P. of Power Delivery on November 15, 2017 (See Attachment DC#2-1).

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2. Refer to South Kentucky's response to Staff's First Request, Item 11, which states that South Kentucky expects the cost of purchased power to be less if the proposed transaction is approved. Explain whether South Kentucky expects to lower its rates if the proposed transaction is approved and executed.

Response:

South Kentucky does not expect to lower its tariffed rates as a result of the transaction. Financial forecast projections without the approval of this purchase power agreement indicate that South Kentucky has a need for increased revenue in 2019. With the approval of this purchase power agreement, projections for a need in increased revenue extend to 2023. During that four-year period, South Kentucky intends to fund a larger portion of infrastructure projects designed to extend the useful life of its distribution system with general funds (rather than borrowed funds). Such reductions in borrowing have a lasting effect on both current and future members of South Kentucky by reducing the requirement on the margin level needed to meet TIER, OTIER and DSC requirements. Similarly, reductions in borrowing increase the cooperative's equity position. Once the target equity level has been achieved and cash resources allow, South Kentucky intends to return margins to members through a series of general retirements of capital credits.

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3. Refer to South Kentucky's response to EKPC's First Request for Information (EKPC's First Request"), Items 2 and 28. Explain whether EnerVision will provide consulting services to South Kentucky related to the Master Power Purchase and Sale Agreement ("Agreement") in the event the Agreement is approved by the Commission and executed by South Kentucky and Morgan Stanley Capital Group ("Morgan Stanley Capital"). If EnerVision will provide future consulting services related to the Agreement, provide an estimate of the costs.

Response:

South Kentucky does not anticipate the need to utilize EnerVision once the agreement is approved by the Commission and the integration into the PJM market has been completed. South Kentucky expects that any issues relating to the transactions would be handled by the designated agent, EKPC.

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4. Refer to South Kentucky's response to EKPC's First Request, Item 10, which references that South Kentucky is actively exploring whether EKPC, Morgan Stanley Capital, or some other party can act as South Kentucky's agent as a Market Participant in PJM. Provide the status of this determination and explain what actions South Kentucky has undertaken to make this determination.

Response:

No further actions have been undertaken, although South Kentucky continues to expect that EKPC will serve as its agent in PJM.

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5. Refer to South Kentucky's response to EKPC's First Request, Item 28, which states that South Kentucky's agent will administer the Agreement with Morgan Stanley Capital. Explain South Kentucky's expected contractual obligations under an agency agreement, whether the agency agreement is with EKPC or any other entity.

Response:

South Kentucky expects the agent (be it EKPC or otherwise) to be responsible for scheduling delivery of the energy under the transaction, and for verifying the amount of energy delivered (as required by the agreement). South Kentucky also would expect the agent to handle capacity procurement and settlement obligations associated therewith. South Kentucky would be expected under the agreement to abide by the applicable terms and conditions of the energy and capacity transactions, and to compensate the agent for its services. At this time, South Kentucky expects the fee to be \$0.80 per MWh or approximately \$400,000.00 per year.