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 SUPPLEMENTAL REQUEST FOR INFORMATION FROM DISTRIBUTION COOPERATIVES[1]

Respectfully submitted,

/s/Matt Malone

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SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

[1] The Distribution Cooperatives include Big Sandy Rural Electric Cooperative Corporation, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Inc., Cumberland Valley Electric, Inc., Farmers Rural Electric Cooperative Corporation, Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corporation, Inter-County Energy Cooperative Corporation, Jackson Energy Cooperative Corporation, Licking Valley Rural Electric Cooperative Corporation, Nolin Rural Electric Cooperative Corporation, Owen Electric Cooperative, Inc., Shelby Energy Cooperative, Inc., and Taylor County Rural Electric Cooperative Corporation.

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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1. Please provide the following information for each communication that occurred before November 28, 2017, between South Kentucky and EKPC about South Kentucky's potential or actual purchase of approximately 58 MW from an Alternate Source:

    a. the date of the communication;

    b. the individuals that participated in and/or witnessed the communication;

    c. the circumstances and substance of the communication, including but not limited to where it occurred and what was stated by each party to the communication; and

    d. provide any Documents provided or discussed during the communication

Response:

The following responds to the question above, to the best of the witness' knowledge and recollection. Unless otherwise noted, individuals' titles can be found in the response to the first question.

1. On July 24, 2017 a meeting was held at EKPC headquarters between Don Mosier, EKPC Chief Operating Officer, David Crews, EKPC Senior V.P. of Power Supply, Dennis Holt, CEO of South Kentucky RECC ("South Kentucky"), Michelle Herrman, V.P. of Finance for South Kentucky(attendance via phone), Kevin Newton, Engineering Manager of South Kentucky, Jeff Greer, Regulatory Services Coordinator of South Kentucky and Mark David Goss, Legal Counsel for South Kentucky, to verify South Kentucky's interpretation of the Amendment 3 and the associated Memorandum of Understanding ("MOU"). During this meeting, EKPC and South Kentucky discussed South Kentucky taking 58 MW from an independent power producer on a 24/7/365 basis. See Attachment DC#4, pp. 50-58.

2. On August 7, 2017, at the EKPC Board Risk and Oversight Committee Meeting at EKPC headquarters, South Kentucky Director, Boris Haynes, approached Tony Campbell, EKPC CEO, and asked if South Kentucky's election to exercise Amendment 3 and MOU rights would impact EKPC. Mr. Campbell advised that it would have no impact on EKPC.

3. On August 21, 2017, following the EKPC Manager's Meeting at EKPC headquarters, Dennis Holt requested to meet with Tony Campbell to discuss any impact of South Kentucky exercising its rights under Amendment 3 and the MOU. Mr. Campbell advised that EKPC could mitigate the 58 MW. During these discussions, it was specifically explained to Mr. Campbell that South Kentucky was considering an alternate source that would provide power on a 24/7/365 basis, through either independent power producer generation or the PJM market.

4. On September 8, 2017, Dennis Holt called David Crews to verify a conference call to be held on September 12, 2017, following the EKPC Board Meeting. See also Attachment DC#2-1.

5. On September 11, 2017, EnerVision Consultant Greg Shepler e-mailed David Crews with specific questions on Amendment 3 and the MOU. In the email, Mr. Shepler states that South Kentucky is considering a purchase power agreement by which the provider will guarantee around the clock delivery. See Attachment DC#2-1.

6. On September 12, 2017, a conference call was held between David Crews, Dennis Holt, Michelle Herrman, Kevin Newton, Jeff Greer, Greg Shepler, and Mark David Goss. The purpose of the call was for Mr. Shepler to re-verify the interpretation of Amendment 3 and the MOU, as well as the delivery point for the energy. See Attachment DC#2-1.

7. On October 24, 2017, Greg Shepler e-mailed questions to David Crews concerning Amendment 3 and the MOU, and David Crews responded on October 27, 2017. See Attachment DC#4, pp. 48-49.

8. On November 10, 2017, Dennis Holt e-mailed a draft Amendment 3 and MOU election letter to David Crews for his review. See Attachment DC#2-1.

9. On November 14, 2017, EnerVision Consultant Carter Babbitt e-mailed David Crews to confirm the understanding that EKPC would act as Electric Distribution Company ("EDR") and perform scheduling for South Kentucky. See Attachment DC#2-1.

10. On November 15, 2017, David Crews answered Carter Babbit via e-mail outlining South Kentucky's requirement to join PJM. See Attachment DC#2-1.

11. On November 21, 2017, Dennis Holt e-mailed David Crews requesting his revisions to the Amendment 3 and MOU notification letter sent by South Kentucky. See Attachment DC#2-1.

12. On November 22, 2017, David Crews replied to Dennis Holt with his proposed changes. See Attachment DC#2-1.

13. On November 23, 2017, David Crews e-mailed Dennis Holt and Mark David Goss his comments on the Amendment 3 and MOU notification letter. See Attachment DC#2-1.

14. On November 24, 2017, Mark David Goss e-mailed David Crews and Dennis Holt edits to the MOU notification letter. David Crews responded on the same day with his approval of the edits. See Attachment DC#2-1.

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2. Is South Kentucky aware that before September 2017, one or more of the other distribution cooperatives attempted to pursue their right to obtain up to 15% of their coincident peak demand energy from an Alternate Source pursuant to Amendment No. 3 and the MOU, and EKPC persuaded the distribution cooperatives not to do so? If your answer is yes, please state all knowledge you have of any of these incidents.

Response:

South Kentucky is aware that two other cooperatives attempted to utilize their Amendment 3 option for a lesser portion of their coincident peak demand, but eventually opted not to do so. These efforts ultimately gave rise to the MOU, which clarified the terms and purpose of Amendment 3.

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3. Did any representative of EKPC meet with any representative of South Kentucky or its Board of Directors to provide evidence of the cost impact to the other fifteen distribution cooperatives of the PPA? If your answer is yes, please describe all information provided by EKPC, including who at EKPC provided the information, who at South Kentucky was provided the information, when and under what circumstances.

Response:

No.

Witness: Dennis Holt

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4. Did any representative of EKPC attempt to persuade South Kentucky to reconsider its decision to pursue the PPA? If your answer is yes, please describe all such communication between EKPC and South Kentucky, including who at EKPC communicated to South Kentucky, who at South Kentucky received the communication, when and under what circumstances.

Response:

No.

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5. Please refer to South Kentucky's Answer to the Distribution Cooperatives' Request for Information ("DC 1-__") No. 6 ("DC 1-6"). Did EKPC give "assurances" that it could mitigate South Kentucky's Alternate Source designation of 58 MW specifically at a full load factor of 100% (508,080 MWh)? If the answer is yes, please state specifically what "assurances" were given, by whom they were made, when and under what circumstances, including a detailed explanation of any methods of mitigation that EKPC indicated it could perform so the other fifteen cooperatives would not experience any cost shifting.

Response:

As discussed in the response to Question DC 2-1, at the August 21, 2017 meeting between EKPC and South Kentucky, it was explained to Mr. Campbell that South Kentucky was investigating an alternate source that would provide power on a 24/7/365 basis (a fact subsequently reiterated to EKPC through communication from EnerVision). Information regarding any inability by EKPC to mitigate this election was never conveyed to South Kentucky. Indeed, in an e-mail dated December 29, 2017, EKPC described considerations that it believed would allow it to absorb and offset the departing load. See Attachment DC#4, pp. 108-109.

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6. If EKPC can mitigate all or most of the cost shifting that may result from the proposed transaction, except the Environmental Surcharge ("ES") amounts for the 58MW, would SKRECC agree to pay its share of the ES so that the other fifteen cooperatives would not experience any cost shifting and their members would not see any increase in rates because of the proposed transaction?

Response:

No. See also MOU, Section 6(A).

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7. Please refer to South Kentucky's Answer to DC 1-8. If no agreement is reached between South Kentucky and EKPC for EKPC to act as a market participant and/or as South Kentucky's agent in PJM for all of South Kentucky's 58 MW purchase from Morgan Stanley, does South Kentucky have an alternate plan for participating in PJM itself, or contracting with another party to act as a market participant and/or as South Kentucky's agent in PJM? If so, please explain that plan in detail, including but not limited to the cost of same, and produce any Documents relating to any alternate plan.

Response:

MOU Section 5(E)(vii) provides that EKPC (or an agent for EKPC) will act as South Kentucky's agent, and South Kentucky expects that an agreement will be forthcoming. However, in the event of a failure by EKPC in this regard, South Kentucky understands that Morgan Stanley Capital Group ("MSCG") can serve in that capacity.

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8. Please refer to South Kentucky's Answer to DC 1-9 Attachment DISTCOOP #4 titled "Amendment 3/MOU RFP Process Update," December 19, 2017, Page 10, the second bullet point under "Benefits" titled "Diversity in Power Supplier." Was there any discussion that the proposed transaction, if approved by the Commission, would amount to approximately 42% of South Kentucky's 2017 retail energy sales? If so, please explain that discussion in detail. If not, please explain why it was not discussed.

Response:

The item in question was discussed with the South Kentucky Board of Directors, insofar as the approximately 42 percent of South Kentucky's 2017 retail energy sales would be at a fixed price lower than the current and projected EKPC average cost of energy, and would be expected to enhance the fuel diversity of South Kentucky's supply.

Witness: Carter Babbit

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9. Please refer to South Kentucky's Answer to DC 1-9 Attachment DISTCOOP #4 titled "Amendment 3/MOU RFP Process Update," December 19, 2017, Page 11, the first bullet point titled "This should be pretty easy." Please explain in detail what was described as being "pretty easy." Please explain the rationale or basis that was given to the South Kentucky Board of Directors for the statement "This should be pretty easy."

Response:

The term "pretty easy" was used to communicate the view of EnerVision regarding the decision to proceed with the proposed transaction, given the estimated savings to South Kentucky's members.

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10. Please refer South Kentucky's Answer to DC 1-10 d. What evidence of collateral upon the start date for the delivery of power by Morgan Stanley does South Kentucky intend to post? Please provide the estimated annual cost of securing and maintaining said evidence of collateral.

Response:

The Collateral Annex, paragraph 10, page 4, outlines the collateral options for both South Kentucky and MSCG. Acceptable forms of collateral are cash or letters of credit. South Kentucky's annual cost to provide a letter of credit, in lieu of cash, is estimated to be 50 to 75 basis points applied to the base amount of the letter of credit. There may be additional costs if the letter of credit requires amendment. The fee to amend is estimated at $500. Master letter of credit annual fees are estimated to be 15 basis points on the base amount of the master letter of credit. Annual line of credit fees are estimated to be zero.

a. South Kentucky intends to utilize cash, as available, supplemented with a letter of credit for its collateral obligation. As the collateral obligation fluctuates daily, based upon current market conditions, estimates may change. Using Attachment DC#2-10, the expected dollar amount range needed for individual letters of credit is between $0 and $11,300,000. These ranges assume threshold amounts greater than zero. The amount for the master letter of credit or line of credit is estimated to be $35,000,000. This Attachment contains confidential information and is subject to a motion for confidential treatment. As confidential information pervades the Attachment, it is being filed with the Commission under seal.

b. Using the range examples provided by MSCG, per Attachment DC#2-10, as of January 2020, the annual letter of credit fee could range from $27,100 to $56,500 using a fee of 50 basis points. Any master letter of credit established would have an estimated annual fee of 15 basis points. The master letter of credit fee based upon $35,000,000 is estimated to be $52,500 annually. However, South

Kentucky currently anticipates using a line of credit, which would have no annual fees unless funds were drawn down.

c. Additionally, it is important to note that MSCG could be required to provide collateral in lieu of South Kentucky based upon market conditions. Similarly, market conditions and final proposals from lenders will dictate the final levels chosen for the master letter of credit or line of credit in advance of the January 1, 2020 posting date.

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11. Please refer to South Kentucky's Answer to DC 1-14. Please explain the details of South Kentucky's conversation with EKPC that it could participate in the RFP, to include who at EKPC was spoken to, by whom at South Kentucky, when and under what circumstances.

Response:

At the July 24, 2017 meeting with Don Mosier, EKPC Chief Operating Officer, and David Crews, EKPC Senior V.P. of Power Supply, there was discussion concerning EKPC's participation in the RFP. Upon their request, the RFP was offered, and EKPC was included but declined to bid.

Witness: Dennis Holt

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12. If South Kentucky fails to obtain a final, non-appealable order approving the proposed transaction with Morgan Stanley on or before May 31, 2018, does South Kentucky have a plan for obtaining its noticed 58 MW from a different source? If yes, please explain in detail the plan. If no, please state whether South Kentucky has had any conversations with anyone at EKPC regarding EKPC continuing to serve that load? If so, please advise the details of said conversations to include who, when and under what circumstances.

Response:

There are currently no plans for a different source, and South Kentucky has had no conversations with EKPC about continuing to serve the load.

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13. Please refer to paragraph 14(iii) of the Firm Physical Energy Confirmation of the PPA and paragraph 17(iii) of Financial Capacity Confirmation of the PPA. If South Kentucky fails to obtain a final, non-appealable order from the Commission approving the proposed transaction with Morgan Stanley on or before May 31, 2018, can either South Kentucky or Morgan Stanley elect to terminate the PPA? If your answer is yes, please describe in detail what, if any, liability either South Kentucky has to Morgan Stanley or Morgan Stanley has to South Kentucky if either party elects to terminate the PPA for this reason, including any reference to any relevant provisions of the PPA.

Response:

Yes. As stated in paragraph 14(iii) of the Firm Physical Energy Confirmation and paragraph 17(iii) of Financial Capacity Confirmation, if the conditions listed are not met or waived, either Party has the option to deliver written notice to the other Party after the applicable date and terminate the transaction. At that point, the transaction becomes void with no further obligations.

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14. Please refer to paragraphs 14(iii) and 16(c) of the Firm Physical Energy Confirmation of the PPA and paragraphs 17(iii) and 19(c) of Financial Capacity Confirmation of the PPA. If South Kentucky fails to obtain a final, non-appealable order from the Commission approving the proposed transaction on or before May 31, 2018, and South Kentucky or Morgan Stanley elects to terminate the PPA, does the PPA require South Kentucky to continue to diligently pursue the case before the Commission and diligently pursue an appeal of an adverse Commission order even though the PPA has been terminated? Please explain your answer in detail, including reference to any relevant provisions of the PPA.

Response:

If the transaction is terminated, the Parties are under no further obligation with regard to one another.

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15. Please refer to paragraph 16 of the Application and Dennis Holt's testimony on page 16, lines 7-11, where Mr. Holt states that the energy and capacity prices set forth in the PPA will not remain available past May 31, 2018. If this is the case, is there any valid reason for the Commission to approve the proposed transaction if the Commission cannot do so on or before April 25, 2018? If your answer is yes, please explain in detail all such reasons.

Response:

Yes. As stated, the option to terminate if the May 31, 2018 date is passed is optional. Thus, a determination by the Commission that South Kentucky has proven that the transaction is rightly authorized, consistent with the requirements of KRS 278.300, would not be effected by the passage of the May 31 date. Stated differently, South Kentucky has not requested any sort of blanket authorization from the Commission, but only approval of the transaction agreed to by the Parties.

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16. Please explain in detail all costs and risks to which South Kentucky is exposed if the Commission does not approve its Application.

Response:

If the Application is not approved, South Kentucky would lose the benefits of the fixed price energy supply and capacity hedge. As a result, South Kentucky would be exposed to additional costs (i.e., lost savings) otherwise avoided through the fixed energy supply transaction and the capacity hedge.

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17. Why does South Kentucky's analysis of the risks and benefits of the proposed transaction with Morgan Stanley assume South Kentucky's load never changes?

Response:

Load growth does not impact the analysis comparing the total cost of the Alternate Source (58 MW) relative to comparable service by EKPC.

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18. Did South Kentucky perform any study or analysis of EKPC's ability to mitigate the loss of South Kentucky's load if the Commission approves the PPA, beyond relying on alleged statements of EKPC's CEO Tony Campbell made August 7, 2017 and August 21, 2017, and the December 29, 2017 email and attached memo? If yes, please describe any such study and analysis. If no, please explain why South Kentucky did not do so.

Response:

Objection: South Kentucky objects to the request insofar as it serves as a collateral attack on the Commission's December 18, 2015 order in Case No. 2012-00503, as well as Amendment 3 and the MOU (which have been accepted for filing by the Commission). Without waiving the foregoing objection, South Kentucky states that no formal analysis was performed prior to giving EKPC notice. South Kentucky CEO, Dennis Holt, has since examined the 2013 EKPC Load Forecast and believes that the projected load growth of EKPC is sufficient to offset the reduction.

Witness: Michelle Herrman

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19. Please refer to the three presentations by EnerVision, Inc. to the South Kentucky Board of Directors dated September 4, 2017, October 19, 2017 and December 19, 2017, respectively. These are referenced in South Kentucky's Response to DC 1-2 and are part of Attachment DISTCOOP#4. Page 10 of the December 19, 2017 presentation lists six risks of the proposed PPA. Please also refer to South Kentucky's response to the Commission Staff's Request ("Staff 1-__") Items 2 and 18 ("Staff 1-2 and 1-18"), and response to DC 1-35, where South Kentucky lists seven risks of the proposed PPA. The risk not mentioned on page 10 of the EnerVision presentation that is mentioned in the above referenced responses is "failure of Morgan Stanley to perform under the proposed transaction." Please state whether this risk was considered by the South Kentucky Board of Directors, and if so, state all information presented to the South Kentucky Board of Directors concerning this risk, any discussion concerning this risk, and what analysis was done, if any, as to the potential cost(s) to South Kentucky if this risk occurs.

Response:

This risk was considered by the South Kentucky Board of Directors and was reviewed as part of discussions concerning the collateral requirements. Those discussions included the fact that the parent company of MSCG is Morgan Stanley, and Morgan Stanley serves as the guarantor for MSCG's obligations. Discussions also covered the fact that the Collateral Annex requires performance assurance to be made in the event of default, which in turn provides financial resources to South Kentucky to support it as it pursues replacement energy.

Similarly, with South Kentucky being a PJM market participant, the Board was made aware that the arrangement would also allow for the ability to purchase energy directly from PJM in the event of a default by MSCG.

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20. Please refer to page 7 of the presentation attached to South Kentucky's response to Staff 1-2, where it states, "Not a perfect hedge because volume could be plus or minus 68 MW."

    a. Under what circumstances could the volume be greater than 68 MW?

    b. Under what circumstances could the volume be less than 68 MW?

    c. Given that EnerVision acknowledges that the "volume could be plus or minus 68 MW," why does EnerVision's net present value ("NPV") analysis assume the volume is 68 MW in each year of the contract term?

Response:

a. The 68 MW figure reflects the 58 MW Alternate Source designation plus an 18 percent reserve requirement, the latter being subject to change over time. Hence the statement that the volume could be greater than or less than 68 MW.

b. See the response to a.

c. Given that the 18 percent reserve requirement is predicated on historical PJM expectations, it was determined to be an appropriate assumption for each year of the analysis.

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21. Please refer to Exhibit CB-8 and page 7 of the presentation attached to South Kentucky's response to Staff 1-2, where it states, "Not a perfect hedge because RTO price is not the final price."

    a. Did either South Kentucky or EnerVision perform any sensitivity analyses or other studies other than Exhibit CB-8 to determine the potential impact on the NPV analysis of the difference between the RTO price and the final price over the life of the PPA?

        i. If so, provide all such analyses and/or studies. If not, explain in detail why no such analyses or studies were performed.

    b. Did either South Kentucky or EnerVision perform any analyses or other studies to determine how often the RTO price either has differed in the past from the final price or is projected to differ from the final price, and the magnitude of that difference?

        i. If so, provide all such analyses and/or studies. If not, explain in detail why no such analyses or studies were performed.

    c. Are there any caps or limitations on Morgan Stanley's obligations with regard to the capacity hedge?

i. If so, where are the terms for those caps or limitations?

d. Explain in detail why South Kentucky agreed to pay Morgan Stanley if the price South Kentucky pays for capacity in PJM is less than [the stated price in the capacity transaction].[2]

Response:

a. No, the results of the scenario analysis indicated no further study was required.

b. EnerVision did review historical information relating to the capacity auction pricing to final pricing. Based on that review, EnerVision determined that the scenario analysis in Exhibit CB-8 was adequate to cover concerns regarding changes in the final capacity price.

c. No.

d. In order to receive the benefit of the product (*i.e.*, the fixing of capacity prices twenty years into the future), South Kentucky had to agree to pay MSCG in situations where the price of capacity was lower than the target price.

[2] The actual price, which is confidential, was listed in the Supplement Set, and the responses here are in reference to that price.

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22. Please refer to the Excel Spreadsheet provided as Attachment 4 (Sheet 1) to South Kentucky's responses to the Distribution Cooperatives' First Request for Information.
    a. Explain in detail why EnerVision assumed that the cost of PJM capacity will remain the same from 2022 through 2039.
    b. Provide all forecasts, studies, and other documents EnerVision relied upon in assuming that the cost of PJM capacity will remain the same from 2022 through 2039.
    c. Explain in detail why EnerVision assumed the cost of PJM capacity will be higher from 2022 through 2039 than in 2020 or 2021.
    d. Provide all forecasts, studies, and other documents EnerVision relied upon in assuming that the cost of PJM capacity will be higher from 2022 through 2039 than in 2020 or 2021.
    e. Explain in detail how EnerVision developed the amounts on line 10 (Total Cost @ EKPC Rate ($M)) on the Summary sheet, and provide all supporting analyses, studies, and other documents.
    f. Explain in detail how EnerVision developed the amounts on line 19 (EKPC Supply ($M)) on the Summary sheet, and provide all supporting analyses, studies, and other documents.

g. Explain in detail why dividing the amounts in line 10 by line 9 produces a different Cost/MWh than dividing the corresponding amounts in line 18 by line 16.

h. Explain in detail why the Cost/Mwh amounts on the Summary sheet for the East Kentucky rate under the Base Case is not the same as the East Kentucky rate under the Alternate Supply Case?

i. Please provide all analyses, studies, and other documents on which EnerVision relied in developing the NITS cost assumptions and projections in the spreadsheet.

j. Please provide all analyses, studies, and other documents on which EnerVision relied in developing the Alt Supply Ancillaries cost assumptions and projections in the spreadsheet.

Response:

a. South Kentucky agreed to purchase from MSCG a Financial Capacity Hedge that was priced relative to the RTO price. Hence, the cost of capacity for South Kentucky for the Alternate Source during the term of this transaction would remain constant at the RTO level. A scenario analysis was conducted to account for the difference between the RTO price and the final price and is summarized in Exhibit CB-8.

b. See (a) above.

c. Historically the PJM capacity prices have been volatile, and in a number of years the price has been in excess of the price agreed to in the capacity transaction. See Attachment STAFF#2, slide 6. With the retirements of resources expected in the next 20 years, it was assumed that the PJM capacity price will increase. The scenario analysis summarized in Exhibit CB-8 also shows that capacity prices have a relatively small impact on the overall savings of the proposed Transaction. See Attachment STAFF#2, slide 11.

d. See (c) above.

e. See Attachment DC#30 (CB10) – Confidential, line 10 for 2020, the escalation was modified in Attachment 4 (Sheet 1) Confidential, from 2% to 6% every four years beginning in 2023. That is the only difference in line 10.

f. The (EKPC Supply ($M)) is actually on line 18, not line 19. See (e) above line 18.

g. The reduction in EKPC cost from the removal of the Alternate Source is not proportional to the reduction in energy from the Alternate Source (58MW, 24 hours a day). To state it another way, the reduction in the denominator is greater than the reduction in the numerator, due to the load factor of the Alternate Source. More off peak energy is served by the Alternate Source (at the lower EKPC energy price), thus removing this lower cost energy from the total EKPC cost and thus increase the average.

h. See (g) above.

i. The historical PJM Transmission Revenue Requirement and Rates for the EKPC Transmission Zone can be found on the PJM website: www.pjm.com/markets-and-operations/billing-settlements-and-credit.aspx under the header: Network Integration Transmission Service Revenue Requirements & Rates. The EKPC Transmission Zone rate of $21,334 $/MW-Year, effective July 1, 2016 was assumed for 2017 and escalated by 3%. The 3% escalation rate represents an average of 5 years of historical data as noted in Attachment DC#30 (CB10), sheet labeled "Adders".

j. Historical data, Dollars per MWh (from Annual State of the Market (SOM) Report, Volume 1; Table 8 (formerly table 9).

Witness: Carter Babbit

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23. Please refer to South Kentucky's responses to Staff 1-5(a) and 18(c) and Section 20 of the Financial Capacity Confirmation attached as Exhibit 8 to South Kentucky's Application. Since the PPA is not tied to any specific generating resource, how will it be determined whether and the extent to which Morgan Stanley is subject to Additional Environmental Costs as defined in Section 20 of the Financial Capacity Confirmation?

Response:

The capacity transaction, Section 20, describes the manner by which Additional Environmental Costs will be determined. Among other things, MSCG is obligated to provide South Kentucky "a good faith market-based quotation" of such costs that are actually incurred or suffered by it during the delivery period, provided, however, that MSCG is obligated to take commercially reasonable efforts to mitigate such costs.

Witness: Dennis Holt

South Kentucky Rural Electric Cooperative Corporation

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24. Please refer to South Kentucky's response to Staff 1-13. Provide all analyses, studies, and other documents on which South Kentucky and/or EnerVision relied in assuming that South Kentucky's cost to be a member of PJM is limited to $1,500 fee plus $5,000 annually.

Response:

Reference is made to http://www.pjm.com/about-pjm/member-services/become-a-member/membership-enrollment.aspx.

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25. Please refer to South Kentucky's response to Staff 1-5(c). Since South Kentucky will be an RPM entity, paying PJM for capacity it procures through the capacity auctions, please confirm whether South Kentucky will be subject to a Locational Reliability Charge for load served during the delivery year.

    a. If your answer is no, please explain why South Kentucky will not be subject to this charge.

    b. If your answer is yes, please state whether South Kentucky included this charge in its NPV analysis?

        i. If your answer is yes, please describe where and how this charge was addressed in the NPV analysis.

        ii. If your answer is no, please explain why not.

Response:

South Kentucky will be subject to such a charge.

b. The scenario analysis conducted on the capacity price impact on NPV (DC Attachment 4, slide 9 of the December 19, 2017 presentation) would have captured any additional capacity costs after the RTO price.

    ii. The Locational Reliability Charge for the delivery year was unknown at the time of the analysis.

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26. Please refer to South Kentucky's responses to Staff 1-13, Staff 1-21, DC 1-34, and the confidential attachments to South Kentucky's response to DC 1-30 (in particular the tab entitled "PJM Summary" in the attachments provided for Exhibits CB-4, CB-5, CB-8 and CB-10). It appears that South Kentucky included fourteen (14) PJM-related costs in the NPV analysis. The full list of PJM charge types with associated billing statement line item ID numbers ("billing codes") is attached hereto as Exhibit A. Please identify which of the PJM billing codes are included in the NPV analysis. For each individual item that is included, describe where and how each was included in the NPV analysis. For those not included, please explain why not.

Response:

Without waiving the confidentiality of the referenced attachment, South Kentucky provides the following information.

South Kentucky included fourteen (14) PJM-related costs in the NPV analysis based on Table 1-9 in the 2016 PJM SOM report which states the following: "Table 1-9 shows…Each of the components is defined in PJM's Open Access Transmission Tariff (OATT) and PJM Operating Agreement and each is collected through PJM's billing system." The energy, capacity and transmission costs are covered in other parts of the analysis under different pricing and thus are not applicable in this table.

a. Components of Total Price categories that are included in "PJM Summary" tab in the attachments provided for Exhibits CB-4, CB-5, CB-8 and CB-10). These components are grouped by categories:

i. The Energy Uplift (Operating Reserves) component is the average price per MWh of day-ahead, balancing and synchronous condensing charges.[38]

ii. The Reactive component is the average cost per MWh of reactive supply and voltage control from generation and other sources.[39]

iii. The Regulation component is the average cost per MWh of regulation procured through the Regulation Market.[40]

iv. The PJM Administrative Fees component is the average cost per MWh of PJM's monthly expenses for a number of administrative services, including Advanced Control Center (AC2) and OATT Schedule 9 funding of FERC, OPSI and the MMU.

v. The Transmission Enhancement Cost Recovery component is the average cost per MWh of PJM billed (and not otherwise collected through utility rates) costs for transmission upgrades and projects, including annual recovery for the TrAIL and PATH projects.[41]

vi. The Capacity (FRR) component is the average cost per MWh under the Fixed Resource Requirement (FRR) Alternative for an eligible LSE to satisfy its Unforced Capacity obligation.[42]

vii. The Emergency Load Response component is the average cost per MWh of the PJM Emergency Load Response Program.[43]

viii. The Day-Ahead Scheduling Reserve component is the average cost per MWh of Day-Ahead scheduling reserves procured through the Day-Ahead Scheduling Reserve Market.[44]

ix. The Transmission Owner (Schedule 1A) component is the average cost per MWh of transmission owner scheduling, system control and dispatch services charged to transmission customers.[45]

x. The Synchronized Reserve component is the average cost per MWh of synchronized reserve procured through the Synchronized Reserve Market.[46]

xi. The Black Start component is the average cost per MWh of black start service.[47]

xii. The RTO Startup and Expansion component is the average cost per MWh of charges to recover AEP, ComEd and DAY's integration expenses.[48]

xiii. The NERC/RFC component is the average cost per MWh of NERC and RFC charges, plus any reconciliation charges.[49]

xiv. The Economic Load Response component is the average cost per MWh of day ahead and real time economic load response program charges to LSEs.[50]

xv. The Transmission Facility Charges component is the average cost per MWh of Ramapo Phase Angle Regulators charges allocated to PJM Mid-Atlantic transmission owners.[51]

xvi. The Non-Synchronized Reserve component is the average cost per MWh of non-synchronized reserve procured through the Non-Synchronized Reserve Market.[52]

xvii. The Emergency Energy component is the average cost per MWh of emergency energy.[53]

1. Footnotes

38 - OA Schedules 1 §§ 3.2.3 & 3.3.3.

39 - OATT Schedule 2 and OA Schedule 1 § 3.2.3B. The line item in Table 1-9 includes all reactive services charges.

40 - OA Schedules 1 §§ 3.2.2, 3.2.2A, 3.3.2, & 3.3.2A; OATT Schedule 3.

41 - OATT Schedule 12.

42 - Reliability Assurance Agreement Schedule 8.1.

43 - OATT PJM Emergency Load Response Program.

44 - OA Schedules 1 §§ 3.2.3A.01 & OATT Schedule 6.

45 - OATT Schedule 1A.

46 - OA Schedule 1 § 3.2.3A.01; PJM OATT Schedule 6.

47 - OATT Schedule 6A. The line item in Table 1-9 includes all Energy Uplift (Operating Reserves) charges for Black Start.

48 - OATT Attachments H-13, H-14 and H-15 and Schedule 13.

49 - OATT Schedule 10-NERC and OATT Schedule 10-RFC.

50 - OA Schedule 1 § 3.6.

51 - OA Schedule 1 § 5.3b.

52 - OA Schedule 1 § 3.2.3A.001.

53 - OA Schedule 1 §3.2.6.

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27. Please refer to South Kentucky's response to DC 1-30, Confidential Attachment for Exhibit CB-10. What is the source for the following data items? Please provide a source reference, citation, or other support.[3]

Response:

Without waiving the confidentiality of the referenced attachment, South Kentucky provides the following information.

a. 5% is reflective of electric cooperatives' long-term borrowing rate
b. 20 Year Compare, Column E escalators
    i. Total Cost @ EKPC Rate ($M) = 2% based on EKPC's 2015 Twenty-Year Financial Forecast, 2015-2034 (See Attachment EKPC#2-1). The stated escalation rates were adjusted to 2% as a conservative measure in the analysis.
    ii. EKPC Supply ($M) – See (i) above
    iii. Alt Supply @ EKPC Rate ($M) - See (i) above
    iv. Alt Supply NITS ($M) – See response to Question DC 2-22 (i)
    v. Alt Supply Ancillaries, PJM ($M) – See (i) above
c. PJM Summary, Column S, rows 4-13 = 2% PJM cost fluctuate over time. The 2% escalation is in line with other escalators utilized in the analysis.
d. Adders, Cell J5 = 3% (see response to Question DC 2-22 (i)).
e. Adders, $/MW-Year data in Row 6 Columns E – I (see response to Question DC 2-22 (i)).
f. PJM Summary, 2014-2016 data in Excel Rows 4 - 17 and Columns U – W (see response to Question DC 2-26).

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[3] This request item stated several subparts with the Distribution Cooperatives marked confidential. This response is in reference to those subparts.

g. Tab PJM Summary: Gas Price data in Excel Row 23 Columns U – AB = NYMEX Gas Futures Prices.

h. MSCG-h: Congestion cost in Excel Row 13, Columns F – Y – this number is zero because energy is delivered to EKPC Zone.

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28. Please refer to South Kentucky's response to Staff 1-15(e). If the sole reason that South Kentucky must join PJM as a market participant is because EKPC required South Kentucky, why is membership in PJM as a market participant an obligation of South Kentucky in item 12 of the Firm Physical Energy Confirmation, Exhibit 7 of the Application?

Response:

South Kentucky included this in the energy transaction given the indications from EKPC that such was required. See DC#4, pp. 50-58; see also Attachment DC#2 – 1.

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29. Please refer to South Kentucky's response to DC-32 and DC-33. Why did South Kentucky not rely upon a PJM capacity price forecast for the years in the cost comparison following 2021?

Response:

The historical volatility of PJM capacity prices cautioned against such reliance.

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30. Please refer to South Kentucky's response to DC 1-8. Has South Kentucky determined at this time whether the Commission must approve its agreement with EKPC, or any other party, for South Kentucky to join PJM as a market participant and for EKPC, or any other party, to act as its agent in PJM?

    a. If your answer is yes, please explain the basis of your determination.

    b. Whether your answer is yes or no, do you agree that the Commission should not consider your Application until all parts of this transaction that require Commission approval are presented to the Commission?

        i. If your answer is no, please explain in detail the basis for your answer.

Response:

a. Reference is made to the response to question DC 1-8.

b. South Kentucky views the Application as complete and sufficient for Commission review to determine adherence with the applicable requirements of KRS 278.300.

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31. Please refer to South Kentucky's response to DC 1-10. Please state the likelihood that South Kentucky will need a letter of credit or line of credit under the Collateral Annex that will exceed a period of twenty-four (24) months and explain the basis for your answer.

    a. If your answer is that it is likely that South Kentucky will need a letter of credit or line of credit under the Collateral Annex that will exceed a period of twenty-four (24) months, which requires Commission approval, do you agree that the Commission should not consider your Application until all parts of this transaction that require Commission approval are presented to the Commission?

        i. If your answer is no, please explain in detail the basis for your answer.

Response:

The contract requires collateral from South Kentucky or MSCG, depending on the current Mark-to-Market Value as described in the Collateral Annex. The Mark-to-Market Value may require South Kentucky to provide collateral on any calculation date; therefore, South Kentucky will maintain access to either a letter of credit or cash reserves sufficient to meet the required calculated collateral amount during the term of the contract.

a. No, South Kentucky does not believe the line of credit would extend beyond 24 months and thus would not need Commission approval.

   i. A line of credit, with a subordinate letter of credit, appears to be the best option for South Kentucky currently because there would be no cost obligation related to the line of credit unless funds were drawn from it. The subordinate letter of credit would be charged an annual fee estimated to be 50-75 basis points. Customarily, lines of credit maintained by the distribution cooperatives are issued under the guidelines of KRS 278.300(8) and do not require Commission approval. South Kentucky does not believe that such a line of credit would be subject to alternative guidance.

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32. Please refer to South Kentucky's response to Staff 1-2 and 1-18, and AG 1-5. Is there any circumstance in which the energy cost to South Kentucky from Morgan Stanley will not remain fixed, other than the changes in environmental laws? If yes, please explain in detail.

Response:

Yes. Pursuant to Sections 17 and 18 of the energy transaction confirmation, a change in Tax Law could affect the fixed price of energy.

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33. Please refer to South Kentucky's response to EKPC's First Request for Information ("EKPC 1-__") Item 15 ("EKPC 1-15"). Please describe the costs associated with a master letter of credit or subordinate letter of credit and the explain the reasons for your statement that those costs were considered to be immaterial, including but not limited to the dollar amount of any estimate you made of those costs.

Response:

The estimated annual cost of a master letter of credit is 15 basis points applied to the stated balance. The estimated annual cost of a subordinate letter of credit is estimated to be 50 to 75 basis points. Annual costs are estimated to be between $27,100 and $56,500. Multiplying $56,500 by 20 years equates to $1,130,000, which is less than .28 percent of the total contract value using base capacity cost. Reference also is made to the response to Question DC 2-10.

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34. Please identify and provide a copy of any Document by which the RUS granted a deviation to authorize the amount of the master letter of credit or line of credit sought by South Kentucky to satisfy the collateral requirements of the PPA to exceed the limitations set forth in the RUS loan contract in Article VI, Section 6.13 (e).

Response:

Reference is made to the response to Question DC 1-3.

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35. What are the potential consequences for South Kentucky under the PPA if is required to post collateral and is unable to do so?

Response:

Page 6, Paragraph 4 of the Collateral Annex does allow for the parties to "otherwise agree in writing" regarding the Pledging Party's inability to post collateral. Notwithstanding the foregoing, failure to provide collateral could trigger an Event of Default.

Witness: Michelle Herrman

South Kentucky Rural Electric Cooperative Corporation

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36. Please provide a copy of any Document that evidences a firm proposal to South Kentucky from any entity for the credit facility required by South Kentucky to be in a position to satisfy the collateral requirements of the PPA. For each such proposal, please state whether the proposal was made before or after the proposing entity was provided a copy of the PPA.

Response:

No firm proposals have been received.

Witness: Dennis Holt

South Kentucky Rural Electric Cooperative Corporation

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37. Please refer to South Kentucky's response to DC 1-35. The question asked what quantification of the risks was developed, but the response does not address this question. Did South Kentucky quantify any of the risks listed in response to DC-35? If so, please explain and support such quantification; if not, please explain why South Kentucky did not quantify those risks.

Response:

South Kentucky did not develop a quantification of the risks listed in response to Question DC 1-35, because it was felt that these risks could be mitigated or were no more burdensome than the current risks with EKPC being South Kentucky's sole source provider.

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38. Please refer to South Kentucky's response to DC 1-3. Are there any documents responsive to this request for information that were not produced by South Kentucky in its response dated March 13, 2018? If so, please provide a copy of those documents.

Response:

No.

Witness: Michelle Herrman

South Kentucky Rural Electric Cooperative Corporation

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39. Please refer to South Kentucky's response to DC 1-4. Are there any documents responsive to this request for information that were not produced by South Kentucky in its response dated March 13, 2018? If so, please provide a copy of those documents.

Response:

South Kentucky renews its objection to this request as vague and overly broad, encompassing information not relevant to the subject matter of this proceeding or any related interest of the Distribution Cooperatives (not being members of South Kentucky), and encompassing information protected by the attorney-client privilege and work product doctrine. Without waiving the foregoing, reference is made to Attachment DC#2-39, which includes what South Kentucky believes to be any remaining documents responsive to this request that are not otherwise protected from disclosure as attorney-client communications and work product. This Attachment contains confidential information and is subject to a motion for confidential treatment. A redacted Public version and an unredacted Confidential version are being filed with the Commission. In addition, confidential information pervades several files associated with the Attachment. Those items are being filed with the Commission under seal.

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40. Please refer to South Kentucky's response to DC 1-5. Are there any documents responsive to this request for information that were not produced by South Kentucky in its response dated March 13, 2018? If so, please provide a copy of those documents.

Response:

South Kentucky renews its objection to this request as vague and overly broad, encompassing information not relevant to the subject matter of this proceeding or any related interest of the Distribution Cooperatives (not being members of South Kentucky), and encompassing information protected by the attorney-client privilege and work product doctrine. Without waiving the foregoing, reference is made to Attachment DC#2-39, which includes what South Kentucky believes to be any remaining documents responsive to this request that are not otherwise protected from disclosure as attorney-client communications and work product.

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41. Please refer to South Kentucky's response to DC 1-8. Please update South Kentucky's response to this item as of the date of its responses to supplemental information requests.

Response:

No additional discussions between South Kentucky and EKPC have taken place on the referenced arrangement.

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42. Please refer to DC 1-10.

a. Please update South Kentucky's response to this item as of the date of its responses to supplemental information requests.

b. Is South Kentucky seeking a letter of credit or line of credit facility that will be available to meet its collateral obligations under the PPA?

i. If the answer is "yes," has South Kentucky calculated the amount of the credit facility it will require in order to be in a position to satisfy the collateral requirements of the PPA?

1. If the answer to this question is "yes," please state that amount, and provide all calculations and workpapers supporting that amount.

2. If the answer to this question is "no," please state how South Kentucky will meet its collateral obligations under the PPA.

c. Has CoBank or CFC communicated whether they have identified any "material issues" in connection with its review the PPA? Please describe any communications with CoBank or CFC regarding their review of the PPA or the proposed transaction, and provide a copy of any Documents evidencing such communications.

Response:

a. There is no updated information.

b. It will; however, it is not actively being pursued at this time.

   i. There is not a final calculated amount at this time, although Attachment DC#2-10 indicates the potential levels needed.

      1. N/A

      2. N/A

c. Neither CoBank nor CFC communicated that they have identified any "material issues" in connection with its review of the PPA as of this filing. Please see Attachments to responses to Question DC 1-3, as well as the Attachment DC#2-42.

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43. Please refer to South Kentucky's response to AG 1-7. State the basis for South Kentucky's conclusion that it will not have to pay transmission costs related to service from its Alternate Source.

Response:

The agreement between South Kentucky and MSCG does not require transmission because the energy (*i.e.*, the Alternate Source) is delivered to the EKPC zone in PJM.

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44. Please refer to South Kentucky's response to AG 1-11. Has South Kentucky estimated the amount of cash or credit it needs to maintain in order to be in a position to replace the Alternate Source in the PJM market if Morgan Stanley defaults? If so, please state that amount and how South Kentucky plans to assure that resources in that amount are available throughout the term of the PPA. If not, please explain in detail why that study was not made.

Response:

No amount has been determined. No study has been made because in the event of such occurrence, the agreement between South Kentucky and MSCG includes remedies for failure to deliver. See also South Kentucky's responses to Questions AG 1-10 and AG 2-6.