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 EAST KENTUCKY POWER COOPERATIVE, INC. SUPPLEMENTAL INFORMATION REQUEST

Respectfully submitted,

//s/Matt Malone

Scott B. Grover (pro hac vice)
S. Michael Madison (pro hac vice)
Balch & Bingham, LLP
1710 Sixth Ave. North
Birmingham, Alabama 35203
(205) 251-8100
(205) 488-5660
sgrover@balch.com
mmadison@balch.com

Matthew R. Malone
William H. May, III.
Hurt, Deckard & May PLLC
127 West Main Street
Lexington, Kentucky 40507
(859) 254-0000 (office)
(859) 254-4763 (facsimile)
mmalone@hdmfirm.com
bmay@hdmfirm.com

Counsel for the Petitioner,

SOUTH KENTUCKY 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:

Kent A. Chandler, Esq.
Rebecca W. Goodman, Esq.
ASSISTANT ATTORNEYS GENERAL
Kent.Chandler@ky.gov
Rebecca.Goodman@ky.gov

W. Patrick Hauser, Esq.
W. PATRIC HAUSER, PSC
phauser@barbourville.com

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
mkurtz@bkllawfirm.com

James M. Crawford, Esq.
Ruth H. Baxter, Esq.
Jake A. Thompson, Esq.
CRAWFORD & BAXTER, P.S.C.
Jcrawford@cbkylaw.com
Rbaxter@cbky.com
Jthompson@cbky.com

W. Jeffrey Scott, Esq.
Brandon M. Music, Esq.
W. JEFFREY SCOTT, P.S.C.
wjscott@windstream.net

Mark David Goss, Esq.
Goss Samford, PLLC
22365 Harrodsburg Road, Suite B325
Lexington, Kentucky 40504
mdgoss@gosssamfordlaw.com

James M. Miller, Esq.
R. Michael Sullivan, Esq.
SULLIVAN MOUNTJOY, PSC
jmiller@smlegal.com
msullivan@smlegal.com

John Doug Hubbard, Esq.
Jason P. Floyd, Esq.
FULTON, HUBBARD & HUBBARD, PLLC
jdh@bardstown.com
jpf@bardstown.com

Clayton O. Oswald, Esq.
TAYLOR, KELLER & OSWALD, PLLC
coswald@tkolegal.com

Robert Spragens, Jr., Esq.
SPRAGENS & HIDGON, P.S.C.
rspragens@spragenhigdonlaw.com

David T. Royse, Esq.
RANDSDELL ROACH & ROYSE PLLC
david@rrrfirm.com

David A. Smart, Esq.
Roger R. Cowden, Esq.
EKPC
David.smart@ekpc.coop
Roger.cowden@ekpc.coop

This 5th day of April, 2018.

/s/Matt Malone

ATTORNEY FOR SKRECC

South Kentucky Rural Electric Cooperative Corporation

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East Kentucky Power Cooperative Supplemental Data Requests

1. Please refer to South Kentucky's response to the Attorney General's First Request for Information ("AG's First"), Item 2 and South Kentucky's response to EKPC's First Request for Information ("EKPC's First"), Item 40.

    a. Please identify the specific EKPC 20-year financial forecast referenced in these responses.

    b. Please provide a copy of the referenced financial forecast.

Response:

a. The response is referencing the twenty-year financial forecast dated April 7, 2015.

b. Please see Attachment EKPC#2-1. This Attachment contains confidential information and is subject to a motion for confidential treatment. As confidential information pervades this Attachment, it is being filed with the Commission under seal.

Witness: Carter Babbit

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2. Please refer to South Kentucky's response to the AG's First, Item 10. In discussing early termination of the Master Power Purchase and Sale Agreement ("Agreement"), South Kentucky states that early termination can only occur if one of the parties has defaulted and not cured the default. The response further states, "There is no other opportunity for a party to terminate the agreement early."

a. If the Commission does not approve the Agreement and appeals of the Commission's decision are unsuccessful, please explain whether the failure to secure approval constitutes a default by one of the parties.

b. Please explain whether the Agreement includes any provisions that permit the termination of the Agreement in the event the Commission does not approve the Agreement and appeals of the Commission's decision are unsuccessful. Please include citations to the appropriate provisions of the Agreement and indicate what costs might be incurred by South Kentucky because of a termination.

Response:

a. Failure to secure approval is not an event of default, but a condition subsequent. See Section 14 of the energy transaction confirmation and Section 17 of the capacity transaction confirmation.

b. See the response to 2 a. As to possible cost incurrence, see the response to Question DC 2-16.

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3. Please refer to South Kentucky's response to the Commission Staff's First Request for Information ("Staff's First"), Items 3 and 15. In the response to Item 3, South Kentucky states that EKPC is "requiring" South Kentucky to become a member of the PJM Interconnection LLC ("PJM"). In the response to Item 15, South Kentucky repeatedly states that it was "directed by EKPC" to become a member of PJM. However, Exhibit 7 of the Application, the Firm Physical Energy Confirmation letter, paragraph 12, clearly states that South Kentucky will promptly apply for and diligently pursue membership in PJM as a Market Participant and will promptly enter into and file with PJM a Declaration of Authority. Please confirm that it is provisions of the Morgan Stanley transaction documents, which EKPC is not a party to nor was involved in the negotiation of, that is requiring South Kentucky to become a member of PJM.

Response:

See response to Question DC 2-28.

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4. Please refer to South Kentucky's response to the Staff's First, Item 7b.

a. Please provide a listing of all the PJM obligations South Kentucky is assuming will be addressed in the anticipated agency agreement with EKPC.

b. Are there any PJM obligations and costs related to South Kentucky becoming a member of PJM that would not be included in the anticipated agency agreement with EKPC? If so, please provide a listing of those obligations.

Response:

a. South Kentucky anticipates that the following items would be addressed in the anticipated agency agreement with EKPC:

1. Provisions for EKPC to inform South Kentucky of developments at PJM regarding matters that might affect the PJM capacity market as related to the transaction;
2. Provisions for EKPC not to take actions to jeopardize South Kentucky's interests regarding the transaction;
3. Provisions for scheduling of South Kentucky's 58 MW load on a 7x24x365 basis in the PJM market, including creating and confirming contracts and schedules via PJM's InScheduling system as needed;
4. Provisions for EKPC to provide and receive information, schedules, notices, or giving direction to PJM or any other person in connection with these processes;
5. Provisions for EKPC to procure capacity on behalf of South Kentucky;
6. Provisions for EKPC to create a PJM Subaccount for South Kentucky;
7. Provisions for EKPC to execute PJM's "DECLARATION OF AUTHORITY" form;

8. Provisions for EKPC to provide reconciliation and checkout services with South Kentucky, PJM and any other necessary party;
9. Provisions for receiving, reviewing, and verifying the accuracy of South Kentucky's daily and monthly energy and capacity settlements with PJM;
10. Provisions for coordinating billing from PJM to South Kentucky;
11. Provisions for notifying South Kentucky that monthly nominations or scheduling of energy in the PJM market have occurred;
12. Assistance in obtaining and utilizing Network Integration Transmission Service from PJM and others, and the management of the same;
13. Assistance with monthly settlement items with Morgan Stanley Capital Group ("MSCG"); and
14. Provisions for EKPC to take necessary actions to perform the Scheduling Services as reasonably appropriate and are necessary to carry out any of the foregoing and otherwise permitted under the terms of the Agreement, the Transmission Provider's tariff, the Network Transmission Service Agreement, the Network Operating Agreement or PJM's Agreements, procedures, and manuals (to the extent not limited or prohibited by the Agreement).

b. Outside of the membership fees previously identified, South Kentucky is not aware of any such costs.

Witness: Dennis Holt

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5. Please refer to South Kentucky's response to the Staff's First, Item 8.

a. Please indicate whether South Kentucky consulted or informed the other owner-members prior to November 28, 2017 that it would be exercising its contractual right to reduce purchases of electric power from EKPC and describe any such consultations or sharing of information.

b. Please explain whether South Kentucky considered consulting or informing the other owner-members prior to filing the November 28, 2017 notice, since the exercising of its contractual right could have impacted the other owner-members' contractual rights.

Response:

a. South Kentucky provided no such indication to the other owner-members.

b. South Kentucky made no such undertaking with respect to the other owner-members.

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6. Please refer to South Kentucky's response to the Staff's First, Item 16. In the response to Staff's First, Item 16b, South Kentucky lists four minimum items it believes should be addressed in the agency agreement with EKPC.

a. Since this response only covered the minimum items expected in the agency agreement with EKPC, please provide a full listing of the items South Kentucky anticipates would be included in the agency agreement.

b. South Kentucky has indicated it expects the agency agreement will be finalized prior to the end of 2018. Please provide the timetable schedule South Kentucky intends to follow to negotiate the agency agreement.

Response:

a. See response to Question EKPC 2-4 a..

b. The following is a tentative timeline for development of an agency agreement.

Task	Date
Meeting with EKPC and South Kentucky, their attorneys, and consultants to discuss the terms that need to be included in an agency agreement.	On or before June 15, 2018
Develop a first draft of the Agency Agreement	On or before July 16, 2018
Meeting to finalize the Agency Agreement	On or before July 31, 2018
Page turn of the final Agency Agreement	On or before October 15, 2018
Parties sign the Agreement	On or before October 31, 2018

Witness: Michelle Herrman

South Kentucky Rural Electric Cooperative Corporation

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7. Please provide a milestone checklist that details all the actions that must be accomplished to complete the proposed Morgan Stanley transaction. The checklist should begin on November 28, 2017 and run through June 1, 2019. Please include the status for each milestone.

Response:

See following page.

South Kentucky Rural Electric Cooperative

Morgan Stanley PPA Task List

Purchased Power Start Date- June 1, 2019

Task	Target Completion Date	Completion Date
Submit Notification under MOU	11/28/2017	11/28/2017
Complete Contract Negotiations and Board Approval	12/19/2017	12/19/2017
Submission to RUS for Approval	1/12/2018	1/5/2018
Application to PSC for Approval	1/31/2018	1/31/2018
Receive RUS Approval	4/12/2018	1/30/2018
Receive PSC Approval	4/25/2018	
Final Contract Meeting with Morgan Stanley/Contract Official	5/31/2018	
Meeting with EKPC to discuss the terms for Agency Agreement	6/15/2018	
Begin PJM Application Process	7/16/2018	
First draft of Agency Agreement	7/16/2018	
Meeting to finalize Agency Agreement	7/31/2018	
PJM Application Complete	8/31/2018	
Page turn of the final Agency Agreement	10/15/2018	
Parties sign the Agreement	10/31/2018	
PJM Application Final Submission	10/31/2018	
PJM Application Approved	12/1/2018	
Collateral Agreements in Place	1/1/2019	
Meetings with PJM/Agent regarding Daily Administrative Procedures	2/1/2019	
Bank Accounts for Wire Transfers Established	3/31/2019	
Collateral to PJM	4/1/2019	
Morgan Stanley Begins Delivery to SKRECC	6/1/2019	
First Letter of Credit/ Cash Collateral Issued	1/1/2020	

Witness: Michelle Herrman

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8. Please refer to South Kentucky's response to the Cooperatives' First, Item 3, DC Attachment 3 (Public version), e-mail response from Michelle Herrman to George Bishara dated January 18, 2018 (PDF pages 3 and 4 of 21) and Item 4, DC Attachment 4 (Public version), Amendment 3/MOU RFP Process Update dated December 19, 2017, slide 8 (PDF page 36 of 118). In the e-mails contained in Attachment 3, the Rural Utilities Service ("RUS") was raising questions as to whether the proposed Morgan Stanley transaction included any embedded derivatives. South Kentucky responded that its auditor had confirmed there were no embedded derivatives. However, in the December 19, 2017 presentation, slide 8 states that the proposed financial capacity agreement "is truly a financial hedge".

a. Please provide copies of any correspondence between South Kentucky and its auditor discussing the subject of derivatives.

b. Please explain how South Kentucky and/or its auditor determined there were no embedded derivatives in the proposed Morgan Stanley transaction, when it was acknowledged by EnerVision, Inc. ("EnerVision") in its December 19, 2017 presentation that the financial capacity agreement was a financial hedge.

c. If South Kentucky is aware, what additional accounting requirements would RUS insist on if it were determined that the financial capacity agreement is an embedded derivative?

Response:

a. Please see Attachment EKPC#2-8. This Attachment includes confidential information that is subject to a motion for confidential treatment. A redacted Public version and an unredacted Confidential version are being filed with the Commission.

b. Please see Attachment EKPC#2-8 and FASB Sections 815-10-15 and 815-15-25-1.

c. Please see RUS Bulletin 1767B-1, "Uniform System of Accounts", and the guidance for Accounts 175, 176, 244 and 245.

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9. Please refer to South Kentucky's response to the Cooperatives' First, Item 6a. In this response, South Kentucky contends that EKPC's CEO provided it with assurances at two informal meetings that EKPC could mitigate the impacts of the Alternate Source designation.

a. Please provide citations to South Kentucky's Application or responses to the first requests for information where it has disclosed the capacity and energy contemplated to be provided by the independent power producer which contacted South Kentucky in the spring of 2017.

b. Provide copies of the proposal submitted by the independent power producer when it contacted South Kentucky in the spring of 2017. Please also provide any additional proposals or amendments provided by the independent power producer up to the response date for the Request for Proposals ("RFP").

c. Please indicate whether South Kentucky knew it would be considering an Alternate Source that would provide 58 MW at a 100 percent load factor prior to the August 7 and 21, 2017 meetings.

d. Please explain why the response to Item 6 makes no mention of either the capacity or load factor discussed during the August 7 and 21, 2017 meetings.

e. Please provide any written documentation establishing that South Kentucky informed EKPC's CEO on either August 7 or 21, 2017 that the capacity would be 58 MW at a 100 percent load factor. In addition, please indicate who was present at both the August 7 and 21, 2017 meetings and state what was specifically communicated to EKPC at each of those meetings concerning the size of the load and load factor associated with the Alternate Source designation.

Response:

a. The amount of capacity and energy is not referenced; only that South Kentucky might share in the output of a new natural-gas fired generating facility. On page 4 and fn. 4 of the Application, the scope of the ensuing RFP is discussed.

b. See Attachment EKPC#2-9. This Attachment contains confidential information and is subject to a motion for confidential treatment. As confidential information pervades this Attachment, it is being filed with the Commission under seal.

c. Yes.

d. South Kentucky did not understand the question to ask about those items.

e. There is no written documentation of either meeting. At the August 7, 2017 meeting South Kentucky's representative to the EKPC Board, Boris Haynes, and EKPC CEO, Tony Campbell were present. The August 21, 2017 meeting was specifically asked for by South Kentucky CEO, Dennis Holt, after the quarterly Manager's Meeting. Present at this meeting were Messrs. Campbell and Holt. At this meeting Mr. Campbell was specifically asked if EKPC could mitigate South Kentucky's 58 MW and was informed "it would be no problem." At this time it was explained to Mr. Campbell that the source being investigated would provide power on a 24/7 basis, either by utilization of the generators or through the PJM market in the event of an outage.

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10. Please refer to South Kentucky's response to the Cooperatives' First, Item 6b and to the December 29, 2017 e-mail from EKPC, with two-page attachment, which was provided in the response to the Cooperatives' First, Item 4, DC Attachment 4 (Public version) (PDF pages 107 through 109 of 118). In the response to Item 6b, South Kentucky states that EKPC sent an e-mail "noting that they could mitigate the impact of the Alternate Source designation." However, the last sentence of the December 29, 2017 e-mail states, "In addition, please note that we will *do everything possible* to totally mitigate this loss of load, and will protect our Owner Members should it return at an inopportune time." (emphasis added)

a. Please explain how South Kentucky could conclude that EKPC had stated it could fully mitigate the Alternate Source designation when the December 29, 2017 e-mail clearly states EKPC would do everything possible to mitigate.

b. Would South Kentucky agree that the two-page attachment to the December 29, 2017 e-mail describes various possibilities and strategies to mitigate the Alternate Source designation, but at no time guarantees mitigation would be achieved?

c. Please refer to page 2 of the two-page attachment to the December 29, 2017 e-mail, second full paragraph. While this paragraph does discuss the possible successful mitigation of the Alternate Source designation, would South Kentucky agree that the situation described in this paragraph is contingent upon EKPC "bouncing back" to weather-normal conditions and some real load growth?

d. Would South Kentucky agree that, should the mitigation efforts undertaken by EKPC fail to fully offset the load loss created by the Alternate Source designation, there would be cost shifts to the owner-members and those cost shifts could show up in the fuel adjustment clause, the environmental surcharge, year-end margins, and possibly a base rate increase?

e. Would South Kentucky agree that certain costs that are recovered by EKPC through its demand and energy rates, and therefore might be avoided by South Kentucky's purchase from an alternate supplier of capacity and energy, might appropriately be assigned to South Kentucky in an EKPC base rate case and therefore such costs should be excluded from South Kentucky's savings estimates? Please explain the response.

Response:

a. South Kentucky's conclusion is based on the statement by EKPC in Attachment DC#1-4 (p. 109), "We will mitigate the load loss for that period, and this strictly means that we will not have those resources immediately available to serve SK should they desire to return early – again a key reason for the long notice periods in Amendment 3." See also response to Question EKPC 2-9 e.

b. See response to (a).

c. The referenced paragraph does state that budgeted 2018 load growth, which presumes a "bounce back to weather-normal as well as some real load growth", is "sufficient to absorb the loss of the SK load" if achieved.

d. Not necessarily. The impact on EKPC and the need to shift costs would depend on many factors, such as its ability to use its Cushion of Credit cash reserves to off-set any cost increase, as well as the impact of other costs on EKPC's system, including EKPC's off-system sales opportunities and increased sales due to new industrial expansion.

e. Insofar as EKPC is stating or implying that it could assign to South Kentucky a special rate or charge associated with the reduction in South Kentucky's demand, then no, as the MOU, Section 6(A) prohibits such action.

To the extent EKPC files a general rate case, its wholesale power rates could increase and South Kentucky's costs could increase. There is no apparent reason to South Kentucky, however, for applying such costs to savings from the Alternate Source designation.

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11. Please refer to South Kentucky's response to the Cooperatives' First, Item 29. In the response South Kentucky states, "By exercising its right to obtain energy supplied from an Alternate Source, South Kentucky seeks to reduce the cost of providing electric service to its residential, commercial and industrial customers – customers that are not otherwise receiving significant rate reductions under EKPC's Rates B and C." If the purchase of 58 MW from an Alternate Source is providing significant savings in power and energy costs to South Kentucky, please explain why South Kentucky believes it is fair, just, and reasonable that only its customers served under EKPC's Rate E should receive the benefits from the purchase.

Response:

As indicated in the referenced response, commercial, industrial and public authority customers taking service under Rates B and C do so pursuant to the terms of those rates and the contracts executed in accordance therewith. The rates for the individually-metered service are discounted, relative to other rates. Accordingly, South Kentucky believes it would neither be fair, nor consistent with the existing service arrangements, to make further reductions as a result of the Alternate Source designation.

Witness: Carter Babbit

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12. Please refer to South Kentucky's response to the Cooperatives' First, Item 35, and the response to the Staff's First, Item 2b. Both responses provide a listing of risks associated with the transaction that South Kentucky identified. Please explain why transmission issues, both availability and cost, were not considered as part of the risk evaluation.

Response:

With the energy transaction being a fixed price, delivered product to the EKPC zone, the risk of transmission availability or cost increase did not present any unique considerations relative to South Kentucky's existing supply arrangement with EKPC.

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13. Please refer to South Kentucky's response to the Cooperatives' First, DC Attachment 4 (Sheet 2) – Confidential.

a. Please explain what is being represented by this spreadsheet. Also, please indicate whether South Kentucky, EnerVision, Morgan Stanley, or some other entity prepared the spreadsheet.

b. Please explain why there appears to be two Morgan Stanley accounts listed on the tabs for January 2, 3, 6, and 7, 2020.

c. Please explain why the actions shown on the spreadsheet tabs do not include Saturday and Sunday.

Response:

a. The referenced document is an illustration of the calculation of daily collateral requirements based upon Mark to Market Values, and was prepared by MSCG, with the exception of Sheet 1. Sheet 1 was in-process work product prepared by South Kentucky.

b. The two accounts correspond to the energy and capacity transaction.

c. South Kentucky does not know, although the exclusion of weekends or holidays is consistent with the Mark to Market element of the calculation.

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14. Please refer to South Kentucky's response to the Cooperatives' First, DC Attachment 4 (Sheet 4) – Confidential. This spreadsheet appears to be an example of how the financial capacity hedge instrument would be settled.

a. Please confirm that is the purpose of this spreadsheet.

b. Please indicate whether South Kentucky, EnerVision, Morgan Stanley, or some other entity prepared the spreadsheet.

c. Please indicate the period covered by the settlement example – is it daily, monthly, or yearly? Also, please indicate whether the financial capacity hedge instrument, Application Exhibit 8, requires a daily, monthly, or yearly settlement.

d. Looking at this example, it would appear that in order for Morgan Stanley to make money on the financial capacity hedge instrument, Morgan Stanley is assuming that during the 18-year term of the instrument the final capacity price for each time period will more often be below the fixed capacity price stated in the instrument than above the fixed capacity price. Please indicate if this is South Kentucky's understanding of the arrangement. If not, please explain South Kentucky's understanding of how Morgan Stanley is making money on the financial capacity hedge instrument.

Response:

a. No, this spreadsheet is designed to be an example for illustration purposes only of how the financial capacity hedge could be different than the final price due to the incremental auctions.

b. Morgan Stanley.

c. The spreadsheet shows examples for illustration purposes only of settled costs for the planning year. Settlements will occur monthly during the actual Planning Year.

d. The spreadsheet shows examples for illustration purposes only of two theoretical planning years and are not designed to show a trend of final prices versus BRA Resource Clearing Price. The financial capacity hedge with MSCG is to the BRA Resource Clearing price and not to the final capacity price that South Kentucky will pay PJM. The two examples show when the financial hedge is beneficial to South Kentucky versus when the financial hedge is beneficial to MSCG. We are not in a position to state whether MSCG is making money or not because we are not parties to any other agreements that MSCG may have in place.

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15. Please refer to South Kentucky's response to the Cooperatives' First, DC Attachment 3 (Public version), the Summary of the Wholesale Power Contract with Morgan Stanley under Amendment #3 of the All Requirements Wholesale Power Contract (PDF pages 15 and 16 of 21). Please indicate whether South Kentucky agrees with the following statements concerning the Amendment 3 allotments and Notices.

a. Based on data through October 2017, would South Kentucky agree that the average of EKPC's three previous years' coincident peaks totals 2,979.8 MW?

b. Would South Kentucky agree that 2.5 percent of this average of the coincident peaks would equal 74.495 MW?

c. Would South Kentucky agree that under the provisions of paragraph 3(A)(iv) of the MOU, if the aggregate amount of all owner-members' loads being served with Alternate Sources (including the load proposed to be served by the owner-member's new Alternate Source) would be equal to or greater than 2.5 percent, the owner-member's aggregate demand reduction from Alternate Sources (including the demand reduction from the proposed new Alternate Source) may not exceed 5 percent of the rolling average of the owner-member's coincident peak demand?

d. Would South Kentucky agree that the total MWs of the noticed projects, including South Kentucky's November 2017 notice, is 69.2 MW?

e. Based on the data through October 2017, would South Kentucky agree that as soon as any subsequent Alternate Source notices totaled 5.295 MW, the 2.5 percent threshold would be reached and no owner-member could seek a demand reduction of greater than 5 percent of the rolling average of the owner-member's coincident peak demand?

f. Based on the data through October 2017 and the 2.5 percent threshold established in the MOU, would South Kentucky agree that after its Alternate Source notice for 58 MW, no other owner-member would be able to request an Alternate Source reduction that equaled 15 percent of the owner-member's rolling average of its coincident peak demand?

Response:

a. Yes

b. Yes

c. Yes

d. Yes

e. Yes

f. Yes

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16. Please refer to South Kentucky's response to the Cooperatives' First, DC Attachment 4 (Public version), the Amendment 3 Allotments based on data through January 2018 (PDF page 118 of 118). Would South Kentucky agree that the MOU's 2.5 percent threshold based on the January 2018 data would be 79.2275 MW (3,169.1 MW x 2.5%)?

Response:

Yes, based on EKPC supplied data.

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17. Please refer to the Application, Exhibit 19, Attachment A, the Restated Mortgage and Security Agreement dated November 1, 2016, between South Kentucky, RUS, the National Rural Utilities Cooperative Finance Corporation ("CFC"), and CoBank, ACB ("the Mortgage"). Given the provisions stated in the Recitals section and the Granting Clause First, section C(ii) of the Mortgage, please provide the following information:

a. Does the Mortgage require that South Kentucky grant to RUS, CFC, and CoBank a security interest and lien on the proposed Morgan Stanley transaction?

b. If yes, did South Kentucky make Morgan Stanley aware that such a security interest and lien would be granted?

c. Does granting to RUS, CFC, and CoBank a security interest and lien on the proposed Morgan Stanley transaction in any way conflict with the provisions of the Agreement, the Collateral Annex to the Agreement, the Firm Physical Energy Confirmation, and the Financial Capacity Confirmation? Please include an explanation of any conflicts.

Response:

a. RUS, CFC and CoBank would have a combined security interest and a lien on the power purchase contract because it exceeds a three-year term. If South Kentucky were to default on its loan to RUS, RUS could take over the contract depending on the severity of the default. If South Kentucky were to default on the CFC or CoBank loans, RUS would need to be notified before they could exercise their rights in this regard.

b. Yes. MSCG has power supply agreements with numerous electric membership cooperatives throughout the country that are borrowers of RUS, CFC and CoBank, and are aware that the lending institutions for such cooperatives have a security interest and lien in material contracts, including power supply agreements.

c. Not to South Kentucky’s knowledge.

Witness: Counsel and
Dennis Holt

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18. Please refer to South Kentucky's responses to EKPC's First, Items 1 and 2. South Kentucky retained EnerVision to assist in its investigation and analysis of proposals that resulted in the proposed Morgan Stanley transaction. EnerVision has prepared numerous analyses of options and the net present value analysis that South Kentucky contends supports the approval of the proposed Morgan Stanley transaction. Consequently, questions concerning the selection ocontinue to provide services in conjunction with the proposed Morgan Stanley transaction are relevant and germane to this proceeding. Please provide the originally requested information in Items 1 and 2.

Response:

Objection: South Kentucky objects to this request, as the requested information is not relevant to the subject matter of this proceeding or any related interest of EKPC (not being a member of South Kentucky). In this respect, the information encompassed by this request does not bear on the Commission's review of and action on South Kentucky's application or the relief requested therein. Subject to and without waiver of the foregoing, South Kentucky states that it began utilizing EnerVision on August 31, 2017, and that it selected EnerVision after South Kentucky interviewed several potential consultants offering the types of services South Kentucky sought. If South Kentucky requires additional consulting work following the completion of the current services, EnerVision would be considered.

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19. Please refer to South Kentucky's responses to EKPC's First, Items 6 through 8. In the responses it has been indicated that a particular provision of documents included in the Application are not applicable to the proposed Morgan Stanley transaction.

a. Please prepare a listing of each provision or section of the documents provided in the Application as Exhibits 5, 6, 7, and 8 which is not applicable to the proposed Morgan Stanley transaction.

b. Please explain why provisions or sections of the documents provided in these Application exhibits were not clearly marked as not applicable.

Response:

Objection: South Kentucky objects to this request as unduly burdensome, insofar as it seeks to have South Kentucky restate transactional materials that have been provided in full with the Application. Subject to and without waiver of the foregoing, South Kentucky states as follows:

The transactions presented in the Application were executed under a Master Power Purchase and Sale Agreement ("Master Agreement"), a form contract developed by the Edison Electric Institute and widely used through the wholesale power industry. Generally speaking, all the terms of the Master Agreement apply, except where noted or stated by the parties in the cover sheet, or as dictated by the energy and capacity transactions executed under the Master Agreement. This latter point appears to be the point of confusion, as indicated in Questions EKPC 1-6 through 1-8. The Master Agreement includes a list of standard products that can be transacted for pursuant to confirmations (Schedule P). Parties to a Master Agreement may elect standard products pursuant to transaction confirmations. For example, the energy transaction between South Kentucky and

MSCG elects the Firm (LD) product from Schedule P. Pursuant to the transaction confirmations submitted with the Application, by electing the products stated in the confirmations, the parties excluded all other products listed in Schedule P. Thus, there was no need to mark the other products (and their corresponding definitions) inapplicable, because by virtue of the terms of the Master Agreement and the transactions executed thereunder, they have no field of operation for purposes of the instant transactions.

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20. Please refer to South Kentucky's response to EKPC's First, Item 8. South Kentucky has indicated that the Alternate Source is not tied to, or contingent upon, any specific generation units or that any specific generation units be operating or operational.

a. Please explain whether Morgan Stanley will physically deliver energy to the EKPC Residual Aggregate Zone or will Morgan Stanley and South Kentucky financially settle at the EKPC Residual Aggregate Zone.

b. Based on the response to Item 8e, please indicate if South Kentucky understands that should Morgan Stanley not deliver at any time that South Kentucky would be subject to the real time cost of energy from PJM.

Response:

a. Yes, MSCG will physically deliver energy to the EKPC Residual Aggregate Zone.

b. Yes, South Kentucky is aware it could be subject to the real time cost of energy from PJM.

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21. Please refer to South Kentucky's response to EKPC's First, Item 9c. South Kentucky was asked to explain the significance of a reduction of 13,400 in South Kentucky members as referenced under "Regulatory Event" in the Collateral Annex to the Agreement and to also explain how this level was determined. The response that this item was added at the request of Morgan Stanley and agreed to by South Kentucky is not responsive to the request. Please provide the originally requested information.

Response:

The significance of the 13,400 figure is that it is the threshold for a Regulatory Event. South Kentucky did not determine this number, MSCG did.

Witness: Michelle Herrman

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22. Please refer to South Kentucky's response to EKPC's First, Item 15. Concerning a master letter of credit or subordinate letters of credit:

a. Please provide the expected dollar amount of any master letter of credit or subordinate letters of credit South Kentucky anticipates needing in conjunction with the proposed Morgan Stanley transaction.

b. Please provide the total expected annual cost in dollars of any master letter of credit or subordinate letters of credit South Kentucky anticipates needing in conjunction with the proposed Morgan Stanley transaction.

c. If South Kentucky has not determined the expected dollar amount of any master letter of credit or subordinate letters of credit it would need in conjunction with this transaction, please explain why this determination has not been made.

Response:

a. The collateral obligation fluctuates daily, based upon market conditions, and estimates may change. Currently, 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 anticipated to be approximately $35,000,000.

b. South Kentucky has the option of providing cash or letters of credit as acceptable forms of collateral. If it is assumed that the collateral requirement will be met solely with a letter of credit, annual costs are 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 amendments. The fee to amend is estimated at $500. Using the range examples provided by MSCG, per Attachment EKPC#2-22, based upon 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, if a line of credit is used in lieu of a master letter of credit, it would have no annual fees unless funds were drawn down. Attachment EKPC#2-22contains 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

c. The collateral requirement is to be adjusted daily and is based upon current market conditions and threshold amounts. Market conditions and final proposals from lenders will dictate the final level chosen for the master letter of credit or line of credit in advance of the January 1, 2020 posting date.

Witness: William Steven Seelye and Carter Babbit

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23. Please refer to South Kentucky's response to EKPC's First, Item 21c. The request asked why it was reasonable to exclude fuel and environmental surcharge costs from the South Kentucky estimated power costs. It also asked for an indication of whether fuel costs reference the fuel adjustment clause ("FAC") factor or all fuel costs – base fuel in the energy rate plus the FAC factor. The response failed to address the second part of the request. Please provide the originally requested information.

Response:

The "fuel costs" referred to on page 8, lines 2-3 of Mr. Babbit's testimony was referring to the fuel adjustment clause ("FAC") factor, not the base fuel cost.

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24. Please refer to South Kentucky's response to EKPC's First, Item 24a. In its response to EKPC's First, Item 8, South Kentucky has stated that the Morgan Stanley energy purchase is not tied to a specific generating unit.

a. Since there is no unit to incur environmental expenses, please explain why there is a need for Section 17 – Environmental Change in Law – in the Firm Physical Energy Confirmation.

b. Please explain whether Morgan Stanley could in the future identify a specific generating unit providing the energy and then apply additional charges under the provisions of Section 17.

Response:

a. See response to Question AG 2-2.

b. As part of the "good faith market-based quotation" MSCG would be required to produce as part of any Additional Environmental Cost assessment, it is possible that one or more sources would be identified.

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25. Please refer to South Kentucky's response to EKPC's First, Item 26 and EKPC Attachment 26 (Confidential version). Please provide the basis for each of the following escalation factors included in the net present value ("NPV") analysis. Include all supporting workpapers, spreadsheets, assumptions, and other relevant documentation.

a. 20 Year Compare tab, Column E, Rows 10, 18, 19, 20, and 21.

b. PJM Summary tab, Column S, Rows 4 through 13.

c. Adders tab, Columns J through M, Row 5.

Response:

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

a. 20 Year Compare, Column E escalators:

i. Total Cost @ EKPC Rate ($M) = 2% based on EKPC's 2015 Twenty-Year Financial Forecast, 2015-2034 (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) – 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 EKPC Attachment 1-26 (Confidential version), sheet labeled "Adders".

v. Alt Supply Ancillaries, PJM ($M) – PJM costs fluctuate over time. The 2% escalation is in line with other escalators utilized in the analysis.

b. PJM Summary, Column S, rows 4-13 = See (v) above

c. See (iv) above.

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26. Please refer to South Kentucky's response to EKPC's First, Item 26 and EKPC Attachment 26 (Confidential version).

a. On the 20 Year Compare tab, please provide the basis for the discount rate used in the NPV analysis. Include all supporting workpapers, spreadsheets, assumptions, and other relevant documentation.

b. On the PJM Summary tab, please provide the source documentation for the gas prices in the model, as shown in Columns U through AB, Row 22. Include all supporting workpapers, spreadsheets, and assumptions utilized in the determination of the gas prices as shown.

Response:

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

a. 5% is reflective of the long-term borrowing rate for cooperatives.

b. The source for the gas prices in the model is NYMEX Gas Futures Prices.

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27. Please refer to South Kentucky's response to EKPC's First, Item 26 and EKPC Attachment 26 (Confidential version).

a. Refer to Column E, Rows 9 and 16 on the 20 Year Compare tab. Please explain why the test-year load on Row 9 and the EKPC MWH on Row 16 were not escalated to reflect any load growth in energy during the analysis period. In addition, would South Kentucky agree that while recognizing load growth in energy would not change the results of the NPV analysis, it would more accurately reflect what the average cost per MWH would be, as shown on Row 11 and 33?

b. Refer to Column F, Rows 10, 18, and 19 on the 20 Year Compare tab. Please explain why the cost for the applicable loads and purchases was based on EKPC's Rate E1 when South Kentucky takes service under EKPC's Rate E2.

c. Refer to Column F, Row 20 on the 20 Year Compare tab. Please explain why the calculation of the alternate supply NITS is the product of the alternate supply MWH times a $/kW-month transmission rate.

d. Refer to Column E, Row 15 on the MSCG-h tab. Please explain why EnerVision assumed that the EKPC Agent Fee would remain fixed for the entire 20-year period. Also, please explain why the EKPC Agent Fee should not be escalated at the same rate as the "Total Cost @ EKPC Rate" as shown on Column E, Row 10 on the 20 Year Compare tab.

e. Refer to Columns H and I, Rows 27 and 28 on the E-Tariff tab. Please explain why EnerVision did not utilize the current version of EKPC's Rate E schedule, which were approved by the Commission in its August 7, 2017 Order in Case No. 2017-00002[1] and were effective for service rendered on and after September 1, 2017.

f. Concerning EKPC's Rate E schedule on the E-Tariff tab, would South Kentucky agree that these energy rates include a base fuel cost component and that in order to reflect the actual fuel costs at any billing period a FAC factor needs to be included? Please explain the response.

g. Please explain why South Kentucky believes it is appropriate in this NPV analysis to reflect only a base fuel cost component instead of modeling actual fuel costs.

h. Refer to Column R, Rows 4 through 13 on the PJM Summary tab. Please explain why the "basis for estimate" for all the rows were 2016 amounts except for Row 4 – Operating Reserves (Uplift) and Row 8 – Regulation.

i. Refer to Columns Y through AB, Row 8 on the PJM Summary tab. Please explain why the escalation factor for the Regulation cost was based on the changes in gas prices rather than the fixed escalation factor stated on the spreadsheet.

[1] *See In the Matter of An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2014 Through October 31, 2016*, Order, Case No. 2017-00002, (Ky. P.S.C., Aug. 7, 2017).

j. Refer to Columns W through AB, Row 9 on the PJM Summary tab. Please explain why EnerVision utilized a "Sch. 1A charged to T customers" charge in 2016 for the Transmission Owner (Schedule 1A) costs instead of EKPC's Ancillary Schedule 1-A rate. Also, please indicate whether EnerVision was aware that the EKPC Ancillary Schedule 1-A rate for the 2017-18 year is $0.2695 / MWH.

k. Refer to Columns I through M, Row 7 on the Adders tab. Please explain why EnerVision utilized a "PJM T Rev Req'ts & Rate" charge for NITS service instead of EKPC's NITS Rate (PJM Schedule 7). Also, please indicate whether EnerVision was aware that the EKPC NITS Rate for the 2017-18 year is $2.202 / kW-month.

l. Please indicate if South Kentucky would agree that had the current EKPC Rate E2 rates, the EKPC Ancillary Schedule 1-A rate, and the EKPC NITS Rate had been incorporated into the NPV model, the NPV would have decreased by approximately 18.7 percent.

Response:

i. The load was not escalated because it does not impact the analysis comparing the total cost of the volume of supply, whether from the Alternate Source or from EKPC. South Kentucky agrees with the second statement.

ii. The cost for the applicable loads and purchases in Column F, Rows 10, 18, and 19 on the 20 Year Compare tab was based on EKPC's Rate E1 due to lack of information on the appropriate rate at the time the analysis performed. The data ultimately was not changed as utilization of the Rate E-2 rate would increase the NPV savings for South Kentucky.

iii. The calculation of the alternate supply NITS as the product of the alternate supply MWH times a $/kW-month transmission rate was done in error. It should have been multiplied by the MW. The results of the correction decrease the NVP savings by approximately $6M.

iv. The EKPC Agent Fee rate was provided by EKPC, without guidance on escalation. Given the level of the fee, it was not escalated.

v. See (ii) above.

vi. Yes, South Kentucky agrees that the energy rates include a base fuel cost component. The FAC was not included in the analysis as it is variable and could be expected to add to the NPV saving over the 20 year term. Thus, on a conservative basis, only the base fuel cost component was included.

vii. See (vi) above.

viii. The "basis for estimate" for Row 4 – Operating Reserves (Uplift) and Row 8 – Regulation being different was that 2016 appeared to be an outlier in the historical data. It was decided to use a year that was more reflective of the history.

ix. The escalation factor for the Regulation cost was based on the changes in gas prices rather than the fixed escalation factor stated on the spreadsheet because it was determined to be more appropriate, however inconsequential.

x. EnerVision utilized a "Sch. 1A charged to T customers" charge in 2016 for the Transmission Owner (Schedule 1A) costs instead of EKPC's Ancillary Schedule 1-A rate to be consistent with the source of the other PJM cost assumptions. At the time of the analysis, EnerVision was not aware that the EKPC Ancillary Schedule 1-A rate for the 2017-18 year is $0.2695 / MWH.

xi. EnerVision utilized the historical PJM Transmission Revenue Requirement and Rates for the EKPC Transmission Zone that 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%. At the time of the analysis, EnerVision was not aware that the EKPC NITS Rate for the 2017-18 year is $2.202 / kW-month.

xii. Objection: South Kentucky objects to this request insofar as it seeks the performance of a study or analysis that South Kentucky has not otherwise performed. Subject to and without waiving the foregoing, assuming a decrease of 18.7 percent, and without consideration of other conservative assumptions identified above, the NPV of the transactions would still bring considerable savings to South Kentucky members.

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28. Please provide revised versions of the NPV analysis, incorporating the following revisions. The assumptions detailed in subparts (a) through (f) below should be included in each revised version of the NPV analysis. Include the spreadsheets with all formulas intact and cells unprotected.

a. Incorporate an energy load growth factor of 0.65 percent on Rows 9 and 16 on the 20 Year Compare tab. This escalation is to run from 2021 through 2036.

b. Use EKPC's Rate E2 and the current rates approved on August 7, 2017.

c. Incorporate an average FAC credit adjustment to the Rate E2 energy rates of ($0.00298) / kWh.

d. Use EKPC's Ancillary Schedule 1-A rate of $0.2695 / MWH as the starting value in 2017 and escalate as originally modeled.

e. Use the same escalation factor as shown in Column E, Row 10 on the 20 Year Compare tab as the escalation factor for the EKPC Agent Fee shown in Column E, Row 15 on the MSCG-h tab.

f. Use EKPC's NITS Rate of $2.202 / kW-month times 58,000 kW times 12 months divided by 1,000,000 for the alternate supply NITS cost in 2017 and escalate as directed in subpart (g).

g. Run three versions of the revised NPV analysis reflecting the following annual escalation factors. One version will reflect an escalation factor on the Adder tab and Column E, Row 20 of the 20 Year Compare tab for the alternate supply NITS of 5 percent, one version with an escalation factor of 10 percent, and a final version with an escalation factor of 15 percent.

Response:

Objection: South Kentucky objects to this request insofar as it is unduly burdensome and seeking the performance of a study or analysis that South Kentucky has not otherwise performed.

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29. Please refer to South Kentucky's response to EKPC's First, Item 29. Please indicate if South Kentucky agrees that, since the displaced energy from the Morgan Stanley Alternate Source is at a 100 percent load factor, EKPC can sell a 100 percent load factor product priced at its system average energy cost to mitigate the cost shift to other EKPC owner-members.

Response:

South Kentucky is unable to agree or disagree with this hypothetical, provided, however, that if EKPC is stating or implying that it could assign to South Kentucky a special rate or charge associated with the reduction in South Kentucky's demand, then South Kentucky disagrees with the statement, as the MOU, Section 6(A) prohibits such action.

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30. Please refer to South Kentucky's response to EKPC's First, Item 30.

a. Please indicate if Mr. Seelye was retained by South Kentucky prior to the filing of the Application in this proceeding.

b. Please indicate if Mr. Seelye assisted EnerVision and South Kentucky with the analysis of the proposed Morgan Stanley transaction prior to the filing of the Application in this proceeding.

c. Please provide all the analyses performed by Mr. Seelye to support the conclusions in his response that South Kentucky did not anticipate that there would be material or significant cost shifts in the FAC, environmental surcharge, and base rates due to the loss of sales from the Alternate Source transaction. Include all workpapers, spreadsheets, assumptions, and other supporting documentation.

Response:

a. Mr. Seelye was not retained by South Kentucky prior to the filing of the Application in this proceeding.

b. Mr. Seelye did not assist EnerVision and South Kentucky with the analysis of the proposed transaction prior to the filing of the Application in this proceeding.

c. Mr. Seelye made no reference to base rates in his response to South Kentucky's response to Question EKPC 1-30. Mr. Seelye's conclusion regarding the FAC and environmental surcharge ES was based on the statement made by EKPC in Attachment DC#1-4 (p. 109).

Because EKPC represented that it will mitigate the load loss for the term of the contract, there should be no cost shifts in the FAC and environmental surcharge. Even if the lost load is fully mitigated with increased native load sales on EKPC's system, there will be no shifting of fuel or environment surcharge costs to other members. If the lost load is fully mitigated with increased off-system sales, the fuel and environmental costs otherwise incurred to serve South Kentucky would be recovered from (or credited against) off-system sales.

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31. Please refer to South Kentucky's response to EKPC's First, Item 35a. Prior to August 7, 2017, please describe and explain what consideration South Kentucky gave to the possible impacts on the other 15 owner-members of EKPC would result from it taking nearly the maximum permissible demand reduction at a 100 percent load factor.

Response:

See the response to Question EKPC 2-5.

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32. Please provide the following information for calendar years 2015, 2016, and 2017:

a. The total billed demand for Rates B, C, and E combined.

b. The total billed demand for Rate E only.

c. The total billed kWh sales for Rates B, C, and E combined.

d. The total billed kWh sales for Rate E only.

e. The average load factor for Rates B, C, and E combined.

f. The average load factor for Rate E only.

Response:

a.	2015 – 3,310 MW	2016 – 3,030 MW	2017 – 3,120 MW
b.	2015 – 2,967 MW	2016 – 2,683 MW	2017 – 2,766 MW
c.	2015 – 1,320,602,148	2016 – 1,333,937,600	2017 – 1,272,812,024
d.	2015 – 1,147,494,525	2016 – 1,160,124,876	2017 – 1,101,616,831
e.	2015 – 32.45%	2016 – 42.41%	2017 – 39.98%
f.	2015 – 30.06%	2016 – 40.14%	2017 – 36.9%

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33. Please indicate whether South Kentucky knows of any load on its system that operates at a 100 percent load factor. Also, please identify the customer(s).

Response:

South Kentucky does not monitor the load factor of the individual accounts it serves, nor is the 58 MW Alternate Source assigned to a specific account.

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34. Under the provisions of the proposed Morgan Stanley transaction, South Kentucky would be purchasing energy at 100 percent load factor, although the actual load factor experienced for its Rate E customers is significantly lower than 100 percent.

a. Please indicate if the RFP stated that all offers had to be at a 100 percent load factor or whether proposals with other load factors would be considered. If the RFP required only proposals at 100 percent load factor, please explain why this was a requirement.

b. Could South Kentucky have issued a RFP that sought proposals for energy at a 50 percent load factor? Please explain the response.

c. Based on EnerVision's experience with power markets, please explain which product would be more expensive – a product at 50 percent load factor or one at 100 percent load factor.

d. If South Kentucky had sought and pursued an Alternate Source transaction based on a 50 percent load factor, would South Kentucky agree that while it likely would have paid more for the purchased energy, there would have been less cost shifting to the other owner-members? Please explain the response.

Witness: Carter Babbit and Dennis Holt

Response:

a. The RFP did not specify load factor.

b. The RFP did not specify load factor.

c. Depending on the circumstances, either product might be the more expensive one (although the benefits to be realized may not necessarily correlate to any cost differential).

d. See the responses to Questions EKPC 2-10a. and 2-30c.

Witness: Dennis Holt

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35. Please refer to Exhibits 7, the Firm Physical Energy Confirmation – Section 14, and 8, the Financial Capacity Confirmation – Section 17, of the Application. Both of the referenced sections state that a condition subsequent to the Confirmations is the Commission "has issued a final, non-appealable order approving the Agreement and this Confirmation on or before 5/31/18".

a. Please indicate if South Kentucky and Morgan Stanley have held any discussions since January 31, 2018 concerning this section of the confirmation documents. Please include a discussion of the nature of any discussions.

b. Please indicate whether South Kentucky has requested an extension of the transaction with Morgan Stanley and if so, provide the details of any extension.

Response:

a. No.

b. No.

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36. Please refer to Exhibit 8 of the Application, the Financial Capacity Confirmation, Section 8 – "Product". This section states "MSCG does not represent or warrant that this financially-settled Product will satisfy any of SKRECC's RPM-imposed performance obligations to PJM." Please also refer to Section 10 – "Contract Quantity", which indicates the financially-settled contract quantity is 68 MW.

a. Please state whether South Kentucky believes this Product can be used to fulfill its RPM-imposed performance obligations to PJM. If yes, please explain why South Kentucky believes it does.

b. If the answer to subpart (a) is no, please state whether South Kentucky will be executing its needs with a third party or will request EKPC to bid on South Kentucky's behalf in subsequent Base Residual Auctions ("BRA") to procure the required PJM RPM obligation of 58 MW plus PJM required reserves.

c. Please explain whether South Kentucky agrees that the Product purchased is a financially-settled fixed for floating swap transaction that provides a price hedge should actual BRA results settle at prices above or below the Contract Price, as listed in Section 11. In other words, South Kentucky has entered into this transaction as a price hedge to its as yet unsecured RPM capacity obligation noted previously.

d. If South Kentucky agrees that the Product is as described, please explain how has South Kentucky determined that the Product is not a derivative of the underlying RPM capacity obligation.

e. Please indicate whether South Kentucky will be requesting approval to enter into a physical RPM capacity obligation in this proceeding or in a later filing with the Commission and be seeking approval from the RUS.

Response:

a. No, South Kentucky does not believe this Product can be used to fulfill RPM-imposed performance obligations to PJM.

b. Yes, South Kentucky will request EKPC, as agent of South Kentucky in PJM, to act this regard.

c. Yes, South Kentucky has entered into this transaction as a price hedge to future capacity purchases that it (or those acting on its behalf) may be required to make from PJM.

d. The capacity transaction is a hedge against the uncertainty of future capacity prices, and falls under the exception of derivative treatment for accounting purposes based upon the normal purchases scope exception. The contract requires the physical delivery of electricity and the purchase of capacity is an ancillary necessity required for the delivery. Please see EKPC 2-8.

e. South Kentucky does not understand prior approval for future capacity purchases to be required by either the Commission or the RUS.

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37. Please refer to South Kentucky's supplement response to the Cooperatives' First, Items 1 and 2. Concerning the two line of credit agreements:

a. Please explain the difference between an "As-Offered Uncommitted Line of Credit" and a "Revolving Line of Credit".

b. Please explain why South Kentucky needed to execute both of these line of credit agreements in September 2017.

c. Please explain whether either of these line of credit agreements were taken out in conjunction with the proposed Morgan Stanley transaction. If there is an association between either line of credit agreement and the proposed Morgan Stanley transaction, please explain how the applicable line of credit agreement is associated with the proposed Morgan Stanley transaction.

d. Please provide the total annual fees in dollars for each line of credit agreement.

Response:

a. The two differences between an As Offered Uncommitted Line of Credit and a Revolving Line of Credit are that with regard to the former, (i) the lender has sole discretion for advancing funds available on the line, and (ii) the interest rate is lower than the Revolving Line of Credit. South Kentucky chose to utilize both types of lines of credit.

b. South Kentucky chose to utilize both of these types of lines of credit when the existing line of credit that was in place expired to take advantage of the lower interest rate in the event it needed to utilize the line of credit, while still maintaining the security of the traditional committed Revolving Line of Credit.

c. No, they were not taken out in conjunction with the subject transaction.

d. There are no annual fees associated with these lines of credit unless funds are drawn down for use. Fees are based upon the prevailing interest rates at that time and the principal balance outstanding. Current interest rates are 3.00% for the Revolving Line of Credit and 2.60% for the As Offered Uncommitted Line of Credit.