

## Gwyn Willoughby

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**From:** Mike McNalley  
**Sent:** Saturday, February 24, 2018 8:24 AM  
**To:** Mark Stallons  
**Cc:** Bill Prather (bprather@farmersrecc.net); Bill Shearer; Chris Brewer (cbrewer@clarkenergy.com); Mike Williams (mikew@bgenergy.com); Tim Sharp (tjsharp@srelectric.com); Joe Spalding (spaldingfarm@windstream.net); Landis Cornett; Tony Campbell; Don Mosier; David Smart; David Crews  
**Subject:** Re: Analyses of SK Scenarios

Thanks, Mark.

On the SK savings, the purpose of this analysis is only to show what changes in our billing for FAC, ES and base rates (assuming a base rate case). I have not attempted to model SK's savings or any other costs they will incur (NITS, PJM Admin, etc), mainly because I'd be guessing at every item and the resulting error is likely large.

One way to attack that is to try to estimate each cost and saving and then do the math. Another method, which may help validate the first, would be to take the NPV of the deal that they describe in their filing (I don't have it with me but I recall it was about \$75-\$120 million) and convert it to an annuity over 20 years at an appropriate discount rate, however you'd be propagating any errors in SK's analysis. That method can probably be scaled reasonably well (if the annuity at 15% is \$7.5 million annually, it would be about \$5 million annually at 10% and \$2.5 million annually at 5%, for example).

To calculate other scenarios similarly to the calculations for 15%, 10% and 5% requires Isaac to redo several analyses, and then me to incorporate those into my spreadsheets and add in the MS analysis. I'm not sure that effort would produce any better result than simply interpolating, which you can do pretty quickly. For negotiating purposes, some things that are clear from the analyses are: 15% costs 15 systems the most potentially, 10% has a lower net cost but also a lower bill reduction for SK, and 5% is even lower. Thus it should be clear that lower is better, and by extension, zero is best. As we discussed at the board meeting, this is simply because SK is buying power at a price above our variable cost and shifting fixed costs to other owner-members. The total cost to the entire 16 owner-members increases by the difference between our variable cost and SK's purchase price (all in, whatever that number actually is). SK may see a net benefit, but that is because the remaining 15 systems are picking up fixed costs that SK formerly paid and not because of a real economic savings.

I'd be happy to assist or discuss further.

Best,

Mike McNalley  
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On Feb 24, 2018, at 7:38 AM, Mark Stallons <[mstallons@owenelectric.com](mailto:mstallons@owenelectric.com)> wrote:

Mike,

Thank you and well done. A few thoughts. For negotiation purposes are the positions between SK at 10% and SK at 5%, such as 9%, 8% and so on easily developed? Having those intermediate positions would be helpful as well as adding SKY's net savings after purchasing their replacement power supply from Morgan Stanley at an assumed price point.

I believe the above would help us develop our negotiation strategy. Your thoughts?

Mark

Mark Stallons  
Sent from my iPhone

On Feb 22, 2018, at 12:41 PM, Mike McNalley <[Michael.McNalley@ekpc.coop](mailto:Michael.McNalley@ekpc.coop)> wrote:

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Special Committee Members:

Please treat this email and attachment as confidential.

Attached is a summary of the preliminary analyses Isaac and I prepared on SK's Amendment 3 election. This summarizes several large, complex analyses in several spreadsheets – it is not the output of a dynamic model where we can modify selected inputs to generate different scenarios. This is because of the complexity of our billing mechanisms and cost structures.

There are three scenarios summarized on the first tab, and each is detailed a bit on the subsequent tabs.

The Base Case Scenario is South Kentucky takes 58MW (We have been calling this 15% but it is actually a bit shy of that). This sets the impacts on FAC, ES and Base Rates after a rate case, using current ratemaking (before we do a cost of service study and try to reallocate some of this)

Case 1 is South Kentucky takes 10% which is 41.2 MW and the remaining 16.8 MW are spread to the other 15 owner-members using their share of the A3 allotments proportionately.

Case 2 is South Kentucky takes 5% which is 20.6 MW and the remaining 37.4 MW are spread to the other 15 owner-members using their share of the A3 allotments proportionately.

For Cases 2 and 3 I had to assume a cost of the Morgan Stanley purchase. I assumed \$40/MWh for energy plus \$5/MWh for capacity (68 MW \* \$100/MW-Day \*365), for a total of \$45/MWh. Our average cost of energy (BROC report) is \$25/MWh so the net cost of the Morgan Stanley deal is assumed to be \$20/MWh. There are several other assumptions that were necessary to prepare these analyses, which are subject to correction, so it must be viewed as probably directionally correct but not precise. Some of the key assumptions are noted on the first tab (page) of the attachment, but there are several others embedded in the thinking.

Note that I have made no effort to estimate what SK is saving in their "deal"; the attached is from the EKPC perspective only. There are several other scenarios we can create, but they are increasingly difficult to model or require assumptions which are much more likely to lead to incorrect conclusions.

Feel free to call to discuss this.

Best,  
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