

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

In the Matter of:

THE APPLICATION OF SOUTH KENTUCKY RURAL)
ELECTRIC COOPERATIVE CORPORATION FOR) Case No. 2018-00050
APPROVAL OF MASTER POWER PURCHASE AND)
SALE AGREEMENT AND TRANSACTIONS THEREUNDER)

REBUTTAL TESTIMONY OF DENNIS HOLT

ON BEHALF OF

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

Filed: May 7, 2018

**REBUTTAL TESTIMONY OF DENNIS HOLT ON BEHALF OF SOUTH KENTUCKY
RURAL ELECTRIC COOPERATIVE CORPORATION**

I. INTRODUCTION

1 **Q: Please state your name, position and business address.**

2 A. My name is Dennis Holt. I serve as the President and Chief Executive Office of South
3 Kentucky Rural Electric Cooperative Corporation (“South Kentucky”). My business
4 address is 200 Electric Avenue, Somerset, Kentucky 42501.

5 **Q. Are you the same Dennis Holt who offered direct testimony in this proceeding?**

6 A. Yes.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to clarify the issue that is before the Commission
9 for approval, as part of South Kentucky’s pending Application. In furtherance of this
10 purpose, I also respond to certain claims of witnesses for East Kentucky Power
11 Cooperative (“EKPC”) and the coalition of Distribution Cooperatives,¹ many of which are
12 speculative, irrelevant, and in some instances misleading. For the few assertions that are
13 accurate, I explain why they do not change my conclusion, or that of the South Kentucky
14 board of directors, that the Morgan Stanley Capital Group (“MSCG”) transaction is in the
15 best interest of South Kentucky’s members and should be approved pursuant to KRS
16 278.300.

17 **Q: Are you responding to every assertion by every intervenor?**

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.

1 A: No. My goal here is to clarify matters, in the hope of ensuring that the Commission is not
2 distracted from the straightforward issue presented in South Kentucky's Application. To
3 the extent that I do not respond to a particular comment or statement by an intervenor, such
4 silence should not be construed as an endorsement by South Kentucky.

5 **Q. What are South Kentucky's goals for the MSCG transaction?**

6 A: Through the MSCG transaction (and the Commission's approval of it under KRS
7 278.300), South Kentucky essentially seeks to secure two things. First, South Kentucky
8 seeks cost savings for its purchased power costs and, by extension, its members. Second,
9 South Kentucky seeks to diversify the sources of wholesale power supply used by it to
10 serve its members' load, while at the same time enhancing wholesale power cost certainty
11 for a fixed period into the future, without compromise to system reliability.

12 **Q: Do you believe these goals to be consistent with your obligations to South**
13 **Kentucky's members?**

14 A: Yes. South Kentucky's Board of Directors and Management owe a fiduciary duty to
15 South Kentucky's members to ensure the financial and operational viability of the
16 cooperative. The MSCG transaction presents South Kentucky with an opportunity to (i)
17 replace 58 megawatts of its existing power supply from EKPC with energy at a fixed
18 price for 20 years; (ii) manage future fluctuations in capacity prices during the vast
19 majority of that period through protections afforded it by the capacity hedge product; and
20 (iii) potentially save more than \$100 million in wholesale power costs during the period
21 (as compared to a no-action course). Given these potential benefits, and considering the
22 fiduciary duty owed by South Kentucky to its members, it is incumbent on me (as the

1 board concluded it was incumbent on it) to execute the MSCG transaction, subject to
2 Commission approval.

3 **Q: Is South Kentucky allowed by law to receive wholesale power from a supplier other**
4 **than EKPC?**

5 A: Yes. As I explained in my initial testimony, South Kentucky (like all other owner-
6 member cooperatives of EKPC) is a party to a Wholesale Power Contract, dated October
7 1, 1964, as amended from time to time. Among the amendments to the Wholesale Power
8 Contract is Amendment 3, dated October 23, 2003. Under Amendment 3, as clarified by
9 the Memorandum of Understanding and Agreement Regarding Alternate Power Sources
10 (“MOU”) entered into by EKPC and all the owner-member cooperatives in July 2015 (in
11 connection with Docket No. 2012-00503), EKPC owner-members can designate an
12 Alternate Source of wholesale electricity supply in lieu of supply from EKPC, up to
13 certain thresholds, and subject to certain conditions. As stated in the MOU, an Alternate
14 Source can be

15 any generating resource that is owned (directly or indirectly, in whole or
16 part) or controlled (directly or indirectly, in whole or part) by an Owner
17 Member, regardless of whether the resource is connected to the Owner
18 Member’s distribution system, or any power purchase arrangement under
19 which an Owner Member purchases capacity or energy (or both), if such
20 generating resource or power purchase arrangement is used to serve any
21 portion of the Owner Member’s load.
22

23 Amendment 3 and the MOU were included with South Kentucky’s initial application in
24 this proceeding. A copy of the Wholesale Power Contract, as amended and from South
25 Kentucky’s files, is attached to this testimony at Exhibit DH-1.

26 **Q: Do you believe this transaction could impair South Kentucky’s service to its**
27 **members?**

1 A: I do not. As discussed in the Application and the supporting materials, the MSCG
2 transaction comprises two components: an energy agreement and a capacity hedge
3 agreement. The energy portion of the transaction is for a Firm LD product. As South
4 Kentucky witness Carter Babbit explains in further detail, MSCG is excused from
5 delivering the Firm LD energy only in the very limited circumstance of an event of Force
6 Majeure (as that term is defined in the agreement). Otherwise, MSCG must make South
7 Kentucky whole for any replacement power that South Kentucky must procure due to a
8 failure of delivery, regardless of the reason. Thus, energy supplied under this component
9 of the MSCG transaction is essentially backstopped by the accessible wholesale power
10 markets, leaving South Kentucky in at least as good position reliability-wise as it is today
11 (and saying nothing of the expected cost savings with the energy price fixed for 20
12 years).

13 **Q: Does the capacity hedge present any service concerns?**

14 A: No. The capacity hedge is solely concerned with the mitigation of future price
15 uncertainty for capacity purchases that South Kentucky may be required to make in
16 connection with its membership in PJM. As far as South Kentucky's actual electric
17 service to its members, the hedge has no effect (positive or negative). It is all about
18 keeping future costs in check.

19 **Q: Do you believe South Kentucky's decision to execute the MSCG transaction is**
20 **reasonably necessary and appropriate?**

21 A: Yes. As stated above, the MSCG transaction offers South Kentucky's members a
22 number of benefits, including cost certainty and supply diversity, along with wholesale
23 power cost savings potentially exceeding \$100 million. As I explained in my initial

1 testimony, South Kentucky spent significant effort canvassing the wholesale market to
2 identify the optimal deal. Given those efforts and the benefits that South Kentucky’s
3 members stand to realize, in my view, it would be unreasonable and inappropriate to
4 forego the MSCG transaction.

5 II. Amendment 3 and the MOU

6 **Q: You have testified that the MSCG transaction represents South Kentucky’s**
7 **designation of an Alternate Source, pursuant to Amendment 3, correct?**

8 A: Yes.

9 **Q: Has any intervenor claimed that South Kentucky’s exercise of its Amendment 3**
10 **Alternate Source designation is technically flawed?**

11 A: Not to my knowledge. In fact, EKPC’s President and Chief Executive Officer Anthony
12 S. Campbell testified that “under the literal terms of the Amendment 3 and the MOU,
13 South Kentucky is permitted to make this election subject, of course, to Commission
14 approval.” Discovery produced by the intervenors confirms this view. For example, Mr.
15 McNalley acknowledges similarly in an email to Inter-County CEO Jerry Carter when he
16 states “This is not an EKPC issue – the MOU allows it as does A3.” (*See* Exhibit DH-2.)
17 Shelby Energy Cooperative CEO Debra J. Martin likewise acknowledges the rights
18 afforded South Kentucky under Amendment 3 and MOU. In response to an December
19 29, 2017 email sent on behalf of EKPC CEO Tony Campbell to Ms. Martin and others
20 discussing South Kentucky’s “notice to exercise their rights under the MOU”, Ms. Martin
21 responds stating “We all knew the possible risks with Amendment 3” (*See* Exhibit
22 DH-3.)
23

1 **Q: Do intervenors nonetheless object to South Kentucky’s exercise of its Amendment 3**
2 **rights?**

3 A: They do. That testimony of course speaks for itself, but to me it seems that the
4 intervenors are claiming that Amendment 3, as clarified by the MOU, possesses flaws
5 and inequities, and on that basis alone, the Commission should deny South Kentucky’s
6 Application.

7 **Q: Do you agree with these claims?**

8 A: I do not.

9 **Q: Why?**

10 A: Amendment 3 and the MOU are part of a filed tariff that every EKPC owner-member, as
11 well as EKPC itself, has signed. They were approved by the Kentucky Public Service
12 Commission and the Rural Utilities Service. That tariff is on file publicly and has
13 remained unchanged since the MOU’s addition following completion of proceedings in
14 Docket No. 2012-00503. South Kentucky relied on the rights afforded it by Amendment
15 3 in pursuing an alternate source and eventually making the designation comprising the
16 MSCG transaction. As part of those efforts, and to secure the potential benefits for its
17 members that I described earlier, South Kentucky has expended time, money and
18 resources. If there is unfairness or inequity afoot, it rests in the claims by intervenors—
19 sophisticated corporate entities whose representatives have agreed twice over a decade-
20 plus span to the Alternate Source option—that they should be relieved of their contractual
21 commitments because, notwithstanding their sophistication and representation by
22 counsel, they did not appreciate the ramifications of the agreement (“shame on us” as
23 William Prather states in his testimony).

1 **Q: Are you not concerned about the “run on the bank” fear raised by intervenors?**

2 A: No. I believe the prevailing understanding of a “run on the bank” is when there is a
3 simultaneous rush of depositors to a financial institution to withdraw funds, due to fear
4 over the safety of their funds in the institution or the ongoing viability of that institution.
5 As a result of the run, the institution is placed in jeopardy, and may face failure due to the
6 sudden withdrawal of a critical mass of deposits. That is no way the case here, even by
7 analogy. South Kentucky’s decision to pursue an Alternate Source designation is
8 predicated on a contractual right and seeks to realize cost savings for its operations and
9 members. To that end, perhaps the better banking analogy is South Kentucky has
10 withdrawn funds from Bank A because Bank B is offering a higher interest rate. In any
11 case, and more importantly for the alleged concerns of intervenors, Amendment 3 and the
12 MOU expressly protect against the very “run of the bank” others claim to fear.

13 **Q: How do Amendment 3 and the MOU provide such protection?**

14 A: Under Amendment 3, EKPC owner-members, as a group, can only designate alternate
15 sources of supply up to 5 percent of EKPC’s load in the aggregate. Thus, 95 percent of
16 EKPC’s load cannot be “withdrawn” through alternate source designation. With this
17 much load protected, I do not see how a “run on the bank” could ever be accomplished,
18 as EKPC is protected against withdrawals—to use the analogy, “withdrawals” of load
19 instead of monetary deposits—of a magnitude that might threaten its ongoing viability.

20 **Q: Prior to this proceeding, has EKPC ever raised this “run on the bank” fear to the**
21 **Commission?**

22 A: Not to my knowledge. On page 168 of EKPC’s 2015 Integrated Resource Plan, there is a
23 brief reference to Amendment 3 and the risk of load loss faced by EKPC as a result.

1 (Public Service Commission Case No. 2015-00134, *The Integrated Resource Plan of*
2 *East Kentucky Power Cooperative, Inc.* (filed April 21, 2015). The discussion states that
3 EKPC’s “exposure to Amendment 3 resources is limited to 5% of EKPC’s rolling three
4 year peak load.” No mention is made of Amendment 3 potentially allowing for a “run on
5 the bank.”

6 **Q: What about the “early movers” and “first hog to the trough” issue that intervenors**
7 **raise? Does this concern you?**

8 A: No. Amendment 3 affords the owner-members an option to designate an Alternate
9 Source. There is no requirement to do so. Thus, through its twice-agreed upon design,
10 Amendment 3 recognizes that there will be early designators, later designators and no
11 designators. And when the amounts designated reach specified thresholds, Amendment 3
12 restricts, or as necessary, forecloses future designations. This is the well-designed
13 protection I discussed above that prevents a rush of cooperative departures that might
14 disrupt EKPC operations (and thereby truly create a “run on the bank” problem).
15 Amendment 3 makes sure that alternate source designations happen in measured fashion,
16 so that the EKPC can plan and adjust accordingly.

17 **Q: Do you think it is accurate to characterize South Kentucky as an early mover?**

18 A: No. Every owner-member has had the opportunity to exercise the full rights afforded it
19 by Amendment 3 since it was put in place in 2003 and clarified in 2015. Given the
20 amount of time that has passed, I struggle to see how South Kentucky’s decision to
21 exercise its full rights under Amendment 3—in the late fall of 2017 no less—bestows
22 “early mover” or “first hog” status. In fact, as the testimony reflects, several cooperatives
23 have exercised rights under Amendment 3 prior to South Kentucky’s designation. Most

1 were not to the maximum amount allowed at the time of the decision, although Grayson
2 Rural Electric Cooperative Corporation did exercise its Amendment 3 right for the full 15
3 percent, before subsequently abandoning that designation in connection with proceedings
4 in Docket No. 2012-00503, which culminated in the MOU.

5 **Q: What would have been the consequence if another owner-member had designated**
6 **an Alternate Source prior to South Kentucky's designation, as noticed on November**
7 **28, 2017?**

8 A: To the extent that the size of the designation affected South Kentucky's ability to
9 designate the full amount of the MSCG transaction, South Kentucky would not have been
10 able to execute the transaction that it did and would have had to resume negotiations for a
11 substitute agreement that fell within its remaining rights under Amendment 3 and the
12 MOU.

13 **Q: Is it your testimony that such a designation by another owner-member would**
14 **nonetheless have been permissible, even though it precluded you from executing the**
15 **MSCG transaction?**

16 A: Yes. Amendment 3 and the MOU are clear as to the rights of the owner-members
17 relative to alternate source designations. If another owner-member had effectuated a
18 designation prior to South Kentucky doing so, and that designation precluded South
19 Kentucky from making its intended designation because the aggregate alternate source
20 designations had reached 2.5 percent of EKPC's load, then South Kentucky would,
21 consistent with Amendment 3 and the MOU, have had to readjust its plans for an
22 alternate source designation. The fact that South Kentucky would have been impacted

1 would not, however, have made the actions of the other owner-member impermissible or
2 otherwise in contravention of Amendment 3 and the MOU.

3 **Q: Do intervenors' claims of cost shifting among cooperatives concern you?**

4 A: As President and Chief Executive Officer of South Kentucky, I appreciate the
5 cooperatives' desire to minimize the potential for cost shifting. But my fiduciary
6 obligation is to South Kentucky's members, and it is their interests that take first priority.
7 Amendment 3 and the MOU afford South Kentucky a right, and through exercise of this
8 right, South Kentucky is positioned to realize significant benefits for its members.
9 Amendment 3 and the MOU do not require consideration by the designator of an
10 alternate source to examine the cost impact of that election on other members. Indeed,
11 the MOU expressly contemplates the prospect for cost shifting. But rather than require
12 any form of analysis or mitigation, the MOU directs that "EKPC shall not be entitled to
13 charge an Owner Member for so-called "stranded costs" related to the Owner Member's
14 implementation of its rights to use Alternate Sources." This provision cannot be
15 underemphasized, as it grew from the Docket No. 2012-00503 proceeding, where after
16 extensive vetting of the cost shift concern, every owner-member and EKPC signed the
17 MOU, and reaffirmed their rights under Amendment 3.

18 Moreover, I am not convinced there will be significant, if any, cost shifting. Under the
19 MSCG transaction, South Kentucky will be purchasing 508,000 megawatt hours from an
20 alternate source. Once EKPC load grows by this same amount, any prospect for cost
21 shift will have been mitigated.

22 **Q: What might the time frame be for such growth?**

1 A: It is difficult to predict, but if current sales growth is any indication, it could be very
 2 soon, if not immediate. In response to South Kentucky’s Request 51, EKPC provided its
 3 monthly sales statistics for 2016 through 2018 (March). Since South Kentucky gave
 4 notice on November 28, 2017, EKPC sales have increased by 494,480 megawatt hours
 5 (as seen below), or 97.3 percent of the volume of energy that South Kentucky will
 6 receive from MSCG.

Date	MWh	Date	MWh	Difference
Dec-16	1,248,995	Dec-17	1,300,306	51,311
Jan-17	1,200,768	Jan-17	1,497,149	296,381
Feb-17	969,106	Feb-17	1,035,671	66,565
Mar-17	1,045,449	Mar-17	1,125,672	80,223
Total Increase in Sales since South KY Notice				494,480

$494480/508000 = 97.3\%$

7

8 **Q: Is the potential for cost shifting among owner-members unique to the Alternate**
 9 **Source designation?**

10 A: No. By virtue of the varied characteristics of our respective systems, including service
 11 facilities and customer demographics, each of the owner-members visit different cost
 12 considerations on the EKPC system as whole. As EKPC (through Mr. McNalley) stated
 13 in its response to South Kentucky Request 46:

14 However, the average price per kWh paid by each owner-member is not
 15 exactly the same. This is due to several factors. Rate E is applicable to all
 16 power usage at the load center not subject to the provisions of the other
 17 rate offerings of EKPC. The mix of residential, commercial, and
 18 industrial customers served by the owner-members will be different and
 19 the load factors for each owner-member will reflect that mix.
 20

1 Information provided by EKPC in response to South Kentucky Request 45 similarly
2 illustrates the cost shifting that already occurs on the system. (See Exhibit DH-4.) For
3 example, page 1 of this Exhibit shows that Clark Energy's average cost for energy for
4 2017 was 70.12 mills, while Owen Electric Cooperative's average cost for energy was
5 55.62 mills (a price differential of 26 percent). Another example can be seen at page 7 of
6 this Exhibit, in Owen Electric Cooperative's Rate G sales (NUCOR Steel). As the data
7 shows, Owen Electric Cooperative's NUCOR Steel member represents 7.8 percent of the
8 total EKPC sales (958,755,663 / 12,337,233,812), but incurs only 5.3 percent of the total
9 EKPC Environmental Surcharge (\$5,998,776 / \$113,105,771).

10 **Q: If the owner members and EKPC had been concerned about cost shifting, could**
11 **they have developed protections?**

12 A: Yes. The Wholesale Power Contract actually exemplifies this fact. In 1998, a
13 supplemental agreement was added to the Wholesale Power Contract, which among other
14 things addressed the possibility of an owner-member taking steps to dissolve or
15 consolidate with or merge into another entity, or to sell, lease or transfer all or a
16 substantial portion of its assets. Among the provisions of that agreement was the
17 obligation on the owner-member, to the extent required by the Rural Utilities Service and
18 EKPC, "to eliminate any adverse effect that such action seems likely to have on the rates
19 of the other members of [EKPC]"

20 **Q: Neither Amendment 3 nor the MOU contain such a provision, correct?**

21 A: That is correct.

22 **Q: Do you have a theory as to why?**

1 A: Like Amendment 3 and the MOU, the 1998 agreement speaks for itself. In my view,
2 however, the parties presumably recognized that such an action could have a significant,
3 destabilizing impact on the system, and wanted to protect against such a development—
4 not unlike the way Amendment 3 and the MOU limit individual Alternate Source
5 designations to a maximum of 15 percent and an aggregate of 5 percent. In any case, the
6 important thing to me is that the 1998 agreement exemplifies the ability of EKPC and the
7 owner-members to design agreements that balance the needs of all parties in as
8 reasonable a manner as the signing parties believed possible. I simply do not accept the
9 premises that an owner-member would sign an agreement, with all the attendant
10 obligations and consequences, if they believed the agreement contained deficiencies or
11 defects that might be detrimental to their members.

12 III. Intervenors' Testimony

13 **Q: Have you reviewed the testimony in this proceeding of Mr. Don Mosier and Mr.**
14 **Mike McNalley for EKPC, and Mr. John Wolfram for the Distribution**
15 **Cooperatives?**

16 A: Yes. I have reviewed all of the testimony submitted by intervenors to this proceeding?

17 **Q: Are you aware that the three referenced individuals dispute the potential savings**
18 **that South Kentucky has calculated for the MSCG transaction?**

19 A: I am, and through the course of discovery in this proceeding, South Kentucky and
20 EnerVision have identified certain technical errors in the original analysis. When those
21 errors are corrected for, the adjusted projected savings remain approximately \$110.8
22 million. Mr. Babbit's testimony provides further details on this revision and also

1 responds to the various claims by intervenors that the potential value to South Kentucky
2 members of the MSCG transaction is not as great as South Kentucky has concluded.

3 **Q: Have these updates altered your view of the MSCG transaction?**

4 A: They have not. I continue to believe that the MSCG transaction is in the best interest of
5 South Kentucky and its members, as the projected savings are still very significant over
6 the life of the transaction, and the other benefits I have discussed are unaffected by these
7 updates.

8 **Q: Does the board of South Kentucky share this view?**

9 A: It does. I have kept the board apprised of this proceeding since its inception, and they are
10 aware of the issues and arguments that have been lodged by intervenors and the attacks
11 that have been proffered on the transaction. The board continues to believe that the
12 MSCG transaction is in the best interest of South Kentucky and its members.

13 **Q: Regarding the testimony of Mr. Anthony S. Campbell, do you believe that the
14 MSCG transaction results in wasteful duplication of facilities?**

15 A: No. First, as I understand the Commission's requirements, that standard referenced by
16 Mr. Campbell concerns the addition of supplemental generation. Here, South Kentucky
17 is exercising a right to designate an alternate source of supply. South Kentucky isn't
18 supplementing generation; rather, it is replacing a portion of it with a more cost-effective
19 source. Even if the standard did apply, however, there is nothing wasteful about South
20 Kentucky's actions in my view.

21 **Q: Why is that?**

22 A: As I have discussed, the MSCG transaction presents South Kentucky with an opportunity
23 to (i) replace 58 megawatts of its existing supply from EKPC with energy at a fixed price

1 for 20 years; (ii) manage future fluctuations in capacity prices during the vast majority of
2 that period through protections afforded it by the capacity hedge product; and (iii)
3 potentially save more than \$100 million in wholesale power costs during the period (as
4 compared to a no-action course). In my view, it would be negligent of my fiduciary duty
5 to not pursue this opportunity.

6 **Q: Mr. Campbell testified that he raised concerns with you regarding South**
7 **Kentucky's alternate source designation. Among other things, Mr. Campbell stated**
8 **that he communicated to you that the alternate source designation would "stir up"**
9 **the other owner-members. Can you elaborate on these statements by Mr.**
10 **Campbell?**

11 A. Yes. I hand delivered South Kentucky's Amendment Three notification to Mr. Campbell
12 on November 28, 2017. At that time, he made the reference that this would "stir up" the
13 other distribution cooperatives. I did not disagree with his assessment but felt each
14 distribution cooperative had had the same opportunity as South Kentucky to exercise its
15 Amendment Three rights, with several having already done so.

16 **Q: Did Mr. Campbell at any time attempt to discourage or dissuade South Kentucky**
17 **from pursuing its alternate source designation?**

18 A: No. While Mr. Campbell did express his opinion that other distribution cooperatives
19 would be upset, he at no time indicated that South Kentucky had deviated from the
20 Amendment Three or the MOU, or that we should not pursue the election being
21 contemplated. To the contrary, he agreed that we were following the rules as outlined in
22 both documents.

1 **Q: Mr. Campbell stated that you asked him to keep the alternate source designation**
2 **“confidential”. Is this correct?**

3 A: Yes.

4 **Q: Why did you ask Mr. Campbell to keep the alternate source designation**
5 **confidential?**

6 A: South Kentucky was first approached by a Texas company to discuss a potential alternate
7 power source in March 2017. At that time we were informed that we were not the first
8 cooperative to be contacted concerning a potential alternate source. Indeed, it was
9 represented to us that outreach had been made to Owen Electric Cooperative several days
10 prior, without a response. In addition, South Kentucky was told that the company planned
11 on meeting with other distribution cooperatives over the next few weeks. With this
12 understanding, in talking with Mr. Campbell I was concerned that other cooperatives may
13 have been considering the same or a similar course as South Kentucky. For this reason, I
14 asked Mr. Campbell to keep my disclosures to him confidential.

15 **Q: Mr. Campbell testifies that “at no time during [the August 7, 2017 and August 21,**
16 **2017 meetings] did I know that South Kentucky was considering an election of more**
17 **than 5 percent of its coincident load.” Do you agree with this statement?**

18 A: I do not. I distinctly recall asking for the August 21, 2017 meeting to inform Mr.
19 Campbell that South Kentucky was exploring a designation of approximately 58
20 megawatts that would be operated on a 24/7 basis. Prior to this meeting, South Kentucky
21 had not informed EKPC of our consideration of a full 15 percent election, and the
22 purpose of the meeting was to inform them of that fact. While I do not recall using the

1 words “100 percent load factor”, I did explain that South Kentucky was considering
2 offerings of a 24/7/365 kind.

3 **Q: Mr. Campbell testifies that as to his knowledge of South Kentucky’s intentions, “[i]n**
4 **fact South Kentucky’s data request responses are not consistent on this point.” Do**
5 **you agree with this statement?**

6 A: Insofar as the responses are answering different questions, then yes, they are not
7 consistent. For example, Mr. Campbell testifies that South Kentucky’s responses to the
8 Attorney General and Nucor Steel Gallatin do not reference the August 2017 meetings. I
9 have reviewed those questions and South Kentucky’s answers again, and as best I can
10 tell, there is no mention of the August 2017 meetings because none of the questions
11 solicited that data in response. The questions from the Distribution Cooperatives do get
12 at the August discussions (hence their reference in the response), but the questions
13 eliciting that response focused on South Kentucky’s consideration of the effects of the
14 alternate source designation on EKPC rates and other system owner-members. With
15 respect to EKPC, South Kentucky provided more specific reference to the 58 MW
16 designation—and in later data requests, the load factor—because the data requests
17 elicited that information in response.

18 **Q: In his testimony, Mr. Mosier expresses confusion over the capacity-hedge**
19 **component of the MSCG transaction and seems to be implying that South Kentucky**
20 **is attempting to mislead the Commission. What is your response to this?**

21 A: South Kentucky certainly did not intend to confuse or obfuscate matters through its
22 Application—indeed, doing so would have undermined South Kentucky’s goal for an
23 expedient resolution of the proceeding. While at times the application and my testimony

1 reference a capacity transaction, the application makes clear on page 1, paragraph 1, that
2 the capacity transaction is “for a financial capacity hedge of 68 MW” South
3 Kentucky’s board resolution (Exhibit 3 to the Application) similarly establishes the
4 authorization for me to pursue the MSCG transaction, including the “financial capacity
5 hedge of 68 Megawatts” Finally, the initial testimony of Mr. Babbit discusses the
6 capacity hedge component of the transaction, and even includes an exhibit exploring the
7 potential risks associated with the hedge. Perhaps Mr. Mosier did not review these
8 portions of South Kentucky’s Application.

9 **Q: Mr. Mosier also raises various items respecting the MSCG transaction? Should**
10 **these matters concern you or the Commission?**

11 A: No. While Mr. Babbit explores the deficiencies in Mr. Mosier’s testimony in greater
12 detail, I would focus on one item that to me epitomizes matters. On page 6, Mr. Mosier
13 testifies that Section 6 of Schedule P of the Master Agreement allows MSCG to serve its
14 energy supply obligations from any source, and that flexibility somehow should concern
15 South Kentucky and the Commission. In responses to data requests (e.g., South
16 Kentucky’s responses to Request 6 of EKPC’s first set and Request 19 of EKPC’s
17 supplemental set), South Kentucky explained at length why that section does not apply to
18 the MSCG transaction.

19 **Q: The energy component of the MSCG transaction is not tied to a specific unit though,**
20 **correct?**

21 A: That is correct. But flexibility of this kind is a good thing, as it actually facilitates the
22 ability of MSCG to provide the Firm LD product, which as I explained earlier, can only
23 be cut in the very limited situation of Force Majeure. Further, Mr. Mosier appears to be

1 implying that MSCG will act in bad faith and couple its resource flexibility with the
2 Environmental Change in Law to effectuate a price increase. Unlike Mr. Mosier, South
3 Kentucky does not presume that its counterparty intends to deviate from the terms of the
4 deal. But regardless, the terms of the energy component of the MSCG transaction are
5 clear that MSCG must take “commercial reasonable efforts to minimize any Additional
6 Environmental Costs.” Thus, there is not the prospect for mischief that Mr. Mosier
7 attempts to draw out of the agreement. Indeed, with the resource flexibility MSCG
8 possesses under the energy component, it will be incumbent on them to avoid Additional
9 Environmental Costs, where commercially reasonable.

10 **Q: Does the definition of Additional Environmental Costs include capital investment**
11 **and associated expense to comply with environmental laws?**

12 A: No, and this is a fact that I do not think the intervenors appreciate or focused on in their
13 testimony. The definition of Additional Environmental Costs essentially comprises items
14 like a federal or state carbon or greenhouse gas tax. I do not mean to suggest it is limited
15 to such items, but those types of environmental costs are what this provision is intended
16 to capture. So, to Mr. Mosier’s example of Pennsylvania joining the Regional
17 Greenhouse Gas Initiative (“RGGI”), costs imposed as a result of participation in RGGI
18 could in theory be covered under the Additional Environmental Costs definition;
19 provided, that MSCG demonstrated it had taken commercially reasonable efforts to
20 mitigate that costs.

21 But suppose the generating resource being used to deliver energy was a coal plant with a
22 coal ash pond, and costs were being incurred to comply with the Environmental
23 Protection Agency’s Coal Combustion Residuals rule. Those costs do not represent

1 Additional Environmental Costs and could never be incorporated into an adjusted energy
2 price to South Kentucky. The same would hold true for any emission control or
3 compliance equipment that might be required on the generating resource, as well as
4 increases in operating expenses due to fuel switching, derates or other actions prompted
5 by the applicable environmental compliance requirement.

6 **Q: Several witnesses express concern over the agency agreement between South**
7 **Kentucky and EKPC being an impediment to the success of the MSCG transaction.**
8 **Do you share their concern?**

9 A: No. Foremost, I believe that EKPC intends to perform its agency obligations pursuant to
10 the MOU in good faith in the development and execution of the agency agreement, and to
11 charge only what its costs should be. In this regard, and in parallel to these proceedings,
12 South Kentucky recently received drafts of the agency agreement and hopes to finalize
13 that soon.

14 **Q: Do you believe that Commission approval of the agency agreement or South**
15 **Kentucky's membership in PJM is required?**

16 A: Certainly South Kentucky will adhere to the directives of the Commission respecting this
17 transaction, but South Kentucky is not aware of any such pre-approval requirement.

18 **Q: Do you believe that review of the Application under the KRS 278.020 is required?**

19 A: Again I am not aware of such a requirement. South Kentucky is not seeking to add
20 supplemental generating capacity through its alternate source designation. Rather,
21 through the exercise of contractual rights afforded it under Amendment 3 and the MOU,
22 South Kentucky is seeking to establish 58 MW of supply that will be in lieu of supply
23 provided by EKPC.

1 **IV. Conclusion**

2 **Q: Mr. Holt, do you believe the Commission should approve South Kentucky's**
3 **application?**

4 A: Yes. I believe South Kentucky has demonstrated full compliance with the standards
5 required for approval under KRS 278.300.

6 **Q. Does this conclude your testimony?**

7 A. Yes.