

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

**In the Matter of:**

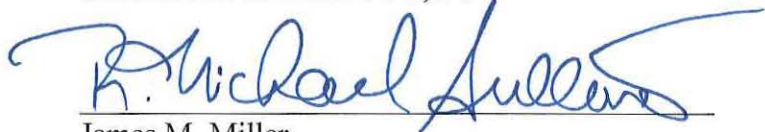
<b>THE APPLICATION OF SOUTH KENTUCKY RURAL</b>	)	
<b>ELECTRIC COOPERATIVE CORPORATION</b>	)	<b>CASE NO.</b>
<b>FOR APPROVAL OF MASTER POWER</b>	)	<b>2018-00050</b>
<b>PURCHASE AND SALE AGREEMENT AND</b>	)	
<b>TRANSACTIONS THEREUNDER</b>	)	

**RESPONSES TO ATTORNEY GENERAL'S INITIAL DATA REQUESTS**

**OF**

**JOINT INTERVENORS**  
**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.**  
**INTER-COUNTY ENERGY COOPERATIVE CORPORATION**  
**LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION**  
**NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION**

SULLIVAN MOUNTJOY, PSC



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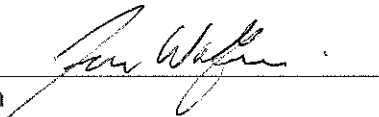
COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

VERIFICATION

I, John Wolfram, verify, state and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information and belief formed after a reasonable inquiry.

John Wolfram 

COMMONWEALTH OF KENTUCKY  
COUNTY OF Jefferson

SUBSCRIBED AND SWORN TO before me by John Wolfram on this 24 day of  
April, 2018.

Ashley R. Forkner  
Notary Public, State at Large  
My Commission Expires: 5/3/18  
Notary ID# 509784

**ASHLEY R. FORKNER**  
Notary Public  
State at Large  
Kentucky  
My Commission Expires May 3, 2018

DISTRIBUTION COOPERATIVES

IN THE MATTER OF: THE APPLICATION OF  
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION  
FOR APPROVAL OF MASTER POWER PURCHASE  
AND SALE AGREEMENT AND TRANSACTIONS THEREUNDER  
CASE NO. 2018-00050

Response to Attorney General's Initial Data Request, Item 1

April 27, 2018

1 Item 1) *Refer to the direct testimony of Mr. John Wolfram, page 8, wherein*  
2 *he states "South Kentucky failed to adequately consider the long-term costs of*  
3 *membership in PJM." Identify these costs and provide a discussion of them,*  
4 *including any cost estimates Mr. Wolfram may have prepared.*

5 a. *Does Mr. Wolfram believe South Kentucky ("SKRECC")*  
6 *adequately estimated its anticipated exposure to costs for*  
7 *PJM Sub-Regional and supplemental transmission projects?*

8 Response) Please see the response to South Kentucky's Request for  
9 Information to the Distribution Cooperatives, Item 8.

10 a. No. South Kentucky made no mention of these types of projects in its  
11 Application, and to the extent that the costs of such projects are included in  
12 PJM's Transmission Enhancement charge, South Kentucky underestimated  
13 these costs, as noted in Wolfram Direct, pages 8-9.

14 Witness) John Wolfram.

DISTRIBUTION COOPERATIVES

IN THE MATTER OF: THE APPLICATION OF  
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION  
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AND SALE AGREEMENT AND TRANSACTIONS THEREUNDER  
CASE NO. 2018-00050

Response to Attorney General's Initial Data Request, Item 2

April 27, 2018

1 Item 2) *Refer to the direct testimony of Mr. John Wolfram, page 16,*  
2 *numerical paragraph 3. Discuss the cost impact on SKRECC if EKPC exits*  
3 *PJM, including the costs SKRECC could incur in obtaining services from a new*  
4 *market participant to replace those EKPC would have performed.*

5 a. *Refer to numerical paragraph 4.*

6 i. *Provide an explanation of additional risks or costs that*  
7 *may be associated with the proposed shortfall of the*  
8 *arrangement in the event Morgan Stanley continually*  
9 *fails to deliver.*

10 ii. *Confirm that as proposed, Morgan Stanley is not*  
11 *subject to Commission jurisdiction.*

12 Response) By exiting PJM, EKPC would reacquire functional control of its  
13 transmission system from PJM, and EKPC would no longer be performing the  
14 PJM-related activities for its Owner Members that South Kentucky listed in  
15 response to EKPC 2-4. One would expect EKPC to increase the cost of its agency

16 agreement with South Kentucky due to the loss of economies of scale. It is not  
17 assumed that after exiting PJM, EKPC would terminate the agency agreement  
18 because the MOU does not condition EKPC's performance of agency-related  
19 services upon EKPC's continued membership in PJM. See MOU Paragraph  
20 5(E)(vii).

21 The important issue, however, relates less to the agency agreement and  
22 more to the reasons for potential EKPC exit. If circumstances in PJM change to  
23 such an extent that EKPC elects to exit PJM, then whatever those adverse  
24 conditions are, South Kentucky would have to cope with them for the duration of  
25 the Transaction term. It is not possible to reasonably estimate these cost  
26 impacts, but they would likely be substantial if the changed circumstances made  
27 it economically advantageous for EKPC to consider withdrawing from PJM.

28 (a)(i) If Morgan Stanley continually fails to deliver, South Kentucky will  
29 be responsible for ensuring the delivery of energy from the PJM market. This  
30 replacement power would likely be acquired in the PJM balancing market.  
31 Morgan Stanley may be contractually obligated to pay the replacement cost for  
32 this energy, but it does not appear to be responsible for the additional  
33 administrative burdens associated with securing the replacement power. Acting  
34 as an agent for South Kentucky in this regard, EKPC could see an increased  
35 burden for the functions related to the balancing market, reconciliation, and  
36 settlements as a result of Morgan Stanley's failure to deliver. This increased

37 administrative burden would come as an unexpected expense to EKPC, which  
38 could impact the cost of the agency agreement with South Kentucky.

39 (a)(ii) To the best of my knowledge, as proposed Morgan Stanley is not  
40 subject to Commission jurisdiction.

41 Witness) John Wolfram.



16 *to the one proposed whereby it has no jurisdiction over the*  
17 *agreement after its approval?*

18 *i. Is Mr. Wolfram aware of any other PPAs or*  
19 *transaction similar to the one proposed whereby*  
20 *the Commission has no jurisdiction throughout the*  
21 *term? If so, provide a citation to same.*

22 **Response)**

23 a) No. South Kentucky presumes that any change in environmental law  
24 would have no impact under the Transaction relative to the status quo; see the  
25 response of South Kentucky to AG 1-5. However, without any knowledge of the  
26 unit(s) that will source the Transaction, it is unreasonable to assert that any  
27 changes in environmental laws or regulations will equivalently impact the  
28 Transaction and EKPC under the status quo.

29 South Kentucky asserted in response to AG 2-2(a) that such additional  
30 environmental expense “does not include, however, capital investment or  
31 expenditures incurred by a utility to comply with the Clean Air Act or mandates  
32 affecting coal combustion wastes and by-products from coal-fired facilities.”  
33 However, this is not obvious from the language in the Application, Financial  
34 Capacity Confirmation, Exhibit 8 page 7, Section 23, and in the Firm Physical  
35 Energy Confirmation in Exhibit 7, pages 5-6, Section 18, which define those  
36 costs as follows:



37 “ Additional Environmental Costs” means:

38  
39 (i) any and all fees, licenses, charges, green tags, certificates, expenses  
40 and products (including but not limited to any charges or products  
41 required on a per unit-of-energy-output, per-unit-of-energy-input, per-  
42 weight-of-pollutant, cap and-trade or other basis) and all losses, costs and  
43 liabilities with respect thereto, imposed or required by a Governmental  
44 Authority with respect to this Transaction or supplied hereunder; and

45  
46 (ii) any and all Taxes and all costs and liabilities with respect thereto,  
47 imposed or required by a Governmental Authority with respect to this  
48 Transaction or supplied hereunder; in each case, only to the extent such  
49 Additional Environmental Costs result from or are attributable to a  
50 Change in Law with respect to any Environmental Law or Tax Law and  
51 directly cause the price of Product paid by SKRECC to be increased.”  
52

53 It is not evident to me that this definition precludes the inclusion of costs needed  
54 to comply with mandates affecting coal combustion wastes and by-products from  
55 coal-fired facilities, including any new requirements for coal ash remediation.

56 For this reason I do not think this risk has been adequately assessed.

57 b) If all else were equal, and under the assumptions outlined in Wolfram  
58 Direct page 23, the average residential bill in the EKPC system would increase  
59 by 1.6%. From a practical standpoint, the amount of and timing of rate impacts  
60 of the Transaction on the EKPC Owner Members will vary.

61 c) In Mr. Wolfram’s opinion, South Kentucky did not provide sufficient  
62 information or analysis to determine whether the proposed Transaction is more  
63 likely than not to be cost-beneficial to its customers. There are numerous factors  
64 in the analysis that are suspect and there are many risks that are not  
65 adequately considered, particularly given the proposed 20-year term of the

66 Transaction. These issues are summarized in the Direct Testimony of John  
67 Wolfram on pages 24-27. Because of the shortcoming in South Kentucky's  
68 analysis, it is unclear whether or not the benefits of the Transaction are likely to  
69 outweigh the costs for South Kentucky's members.

70 d) Mr. Wolfram is not an attorney, but he understands that KRS  
71 278.040(2) gives the Commission exclusive jurisdiction over the regulation of  
72 rates and service of utilities in the Commonwealth. Accordingly, Mr. Wolfram  
73 thinks it would be preferable for the Commission to have continued jurisdiction  
74 over the Transaction if it is approved, particularly given the proposed 20-year  
75 term of the Transaction.

76 i) No.

77 Witness) John Wolfram.