

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

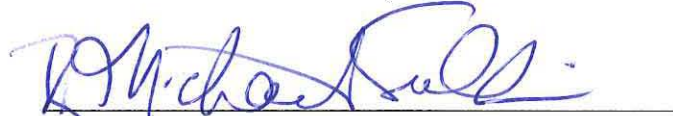
THE APPLICATION OF SOUTH KENTUCKY RURAL)	
ELECTRIC COOPERATIVE CORPORATION)	CASE NO.
FOR APPROVAL OF MASTER POWER)	2018-00050
PURCHASE AND SALE AGREEMENT AND)	
TRANSACTIONS THEREUNDER)	

**SUPPLEMENTAL RESPONSE TO REQUEST FOR INFORMATION OF
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION**

OF

JOINT INTERVENOR INTER-COUNTY ENERGY COOPERATIVE CORPORATION

SULLIVAN MOUNTJOY, PSC



James M. Miller
R. Michael Sullivan
100 St. Ann Street, P.O. Box 727
Owensboro, KY 42302-0727
(270) 926-4000 - telephone
(270) 683-6694 - facsimile
jmiller@smlegal.com - email
msullivan@smlegal.com - email

Counsel for Joint Intervenors

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 South Kentucky Rural Electric Cooperative Corporation's
Information Request, Item 4
May 12, 2018

1 **Item 4)** *Please produce all email communications sent or received by and*
2 *between any of the Distribution Cooperatives during the period November 28,*
3 *2017 through February 23, 2018 that reference South Kentucky (as defined in*
4 *the instructions) or that relate in any way to Amendment 2, the MOU or the*
5 *potential or actual exercise of rights by South Kentucky under Amendment 3*
6 *and/or the MOU.*

7 **Supplemental Response)** The responding parties incorporate by reference as if
8 set forth fully herein their objections stated in the original response. Without
9 waiving these objections, responding party Inter-County Energy Cooperative
10 Corporation produces with this response additional emails designated "I-C SK
11 4/000009-000020."

12 **Witnesses)** Jerry Carter, President/CEO of Inter-County Energy Cooperative
13 Corporation, and counsel as to objections.

Mike Sullivan

From: Terri Combs <terri.combs@ekpc.coop>
Sent: Friday, December 29, 2017 2:32 PM
To: A L Rosenberger ; Alan Ahrman - Owen; Barry Myers -- Taylor County; Bill Prather -- Farmers; Bobby Sexton--Big Sandy; Boris Haynes; Carol Fraley -- Grayson; Carol Wright - Jackson Energy; Chris Brewer - Clark Energy; Debbie Martin -- Shelby; Dennis Holt; Elbert Hampton; Jerry Carter; Jim Jacobus; Jimmy Longmire -- Salt River; Jody Hughes; Joe Spalding External; Joni Hazelrigg; Kelly Shepherd; Ken Arrington -- Grayson; Kerry Howard -- Licking Valley; Landis Cornett; Mark Stallons -- Owen; Mickey Miller -- Nolin; Mike Williams -- Blue Grass; Paul Hawkins -- Farmers; Raymond Rucker; Ted Hampton; Ted Holbrook; Tim Eldridge; Tim Sharp - Salt River Electric; Wayne Stratton -- Shelby; William Shearer -- Clark
Cc: Tony Campbell; Mike McNalley; Don Mosier; David Smart
Subject: From Tony Campbell re: Amendment 3 Memo
Attachments: A3 Load Loss Mitigation Discussion Final.docx

Sending on behalf of Tony Campbell

All:

Since South Kentucky gave us notice to exercise their rights under the MOU, we have had a number of CEO's contact us. Many have asked questions about the financial impacts to the remaining Owner Members. Mike McNalley and his team have been working on the potential cost implications of losing this 58 MW baseload block of power. Please remember this was done somewhat quickly, and we will continue to refine the data. 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.

Regards,
Anthony "Tony" Campbell
President and CEO
Phone: 859-745-9313
Fax: 859-744-7053



EKPC SAFETY IS
RIGHT.

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East Kentucky Power Cooperative
Mitigation of Amendment 3 Load Loss
December 27, 2017

For this analysis I am using the SK Amendment 3 notice and their actual billings for the 12 months ending November 2017. The notice was for 58MW of load to be removed from the EKPC system, at an effective load factor of 100%.

South Kentucky Billing

EKPC billing differential to SK for the 12 months would have been a reduction of 508,000 MWh and \$30.4 million over the 12 months. This includes a reduction of \$28.5 million from Base Rates, an increase of \$2.5 million from the FAC, and a reduction of \$4.4 million in the ES. The base rate and FAC impacts should be taken together, for a net billing reduction of \$26.0 million.

For SK, we calculate a reduced load factor on the EKPC system because they are removing 100% load factor MWs. SK's load factor in the 12 months of 2017 would have dropped from the actual 56.3% to only 43.5%; this would have resulted in an increased cost per MWh billed by EKPC of \$6.07/MWh (from \$68.95/MWh to \$75.02/MWh). Because we do not have their new contract details it is impossible for us to calculate the net impact of their new contract on SK members.

Cost Shift and Mitigation

The load loss as a result of an Amendment 3 election will shift costs. EKPC will act promptly to mitigate that cost shift.

The cost shift consists of the fixed costs EKPC would no longer recover in base rates from SK, and the ES which would be "automatically" reallocated based on revenue to all members (including SK).

We estimate that the ES amount that would remain with SK is about \$0.3 million, so approximately \$4.1million would be reallocated to the other 15 owner-members.

EKPC's system is approximately half fixed cost and half variable cost (fuel, purchased power, etc). So of the base revenue loss (\$26.0 million), about \$13 million would be fixed and need to be recovered.

Thus, the total cost shift, without any mitigation, is approximately \$17.1 million to the 15 owner members for the 12 month period ending November 2017.

Amendment3 (and SK) provides for a long notice period, which is necessary for EKPC to achieve the best mitigation of the load loss for its owner-members. This is important because it gives EKPC the time to develop and execute numerous options. Without the time to act, EKPC would have only two options: sales of the energy into PJM in the day-ahead and real-time market, and a base rate increase. For 2017,

the energy market would have provided approximately \$5/MWh of margin, or \$2.3 million, leaving an unmitigated balance of \$14.8 million. Given EKPC's low margins this year, this might be large enough to tip us into a base rate increase, especially if we had no further mitigation options.

However, with time, more options unfold. These include participating in the PJM Intermediate Capacity Auctions (IA), the PJM Base (May) Capacity Auction (BRA), natural load growth, economic development, and special contracted loads. In the IA we might expect from \$800k to \$1.6 million of revenue in the first year, growing as the market firms and better prices are realized (three years out) in the BRA.

Load growth in our budget for 2018, which includes a bounce back to weather-normal as well as some real load growth, is projected at 1,388 MW and 974,217 MWh. If this is achieved, it is sufficient to absorb the loss of the SK load, although our EKPC results would be lower than projected (because we have their entire load in our budget). Because the notice period extends beyond the 2018 budget year, it is reasonable to conclude that EKPC can grow load sufficiently to offset the SK loss by the time their load actually leaves. Any load growth on SK's system also will directly benefit the EKPC system and all owner-members because their notice is for a fixed block of power which cannot grow – thus all load growth must be served under the wholesale power agreement.

A significant new load developed through economic development efforts could further mitigate the SK load loss. However to be valuable in this context that new load should be at tariffed rates and not heavily discounted so that it makes a full contribution to the fixed costs. A load such as the expansion of Gallatin, which is interruptible and does not contribute substantially to fixed costs, will not provide a material benefit in this context (it is obviously valuable in other ways).

Special load contracts (bi-lateral agreements) could possibly be negotiated. However the MW size (58) is odd, and it is likely we would have difficulty finding a good match at the size needed.

Finally, the SK notice is for a 20 year contract. 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.

Additional Load Loss (more Amendment 3 Notices)

Under Amendment 3, after SK's election, there are approximately 69.2 MW of potential load to be noticed across all owner-members. If some or all of these MWs are noticed soon, EKPC will follow similar mitigation plans. However, our "natural" load growth scenario will be insufficient to absorb all of the load loss by the time the notices are effective, so there likely would be some margin depression for a year or so. Other mitigation efforts might make up some of the shortfall, but we should expect some cost shifting in base rates, at least for a year or two.

All figures are estimates and we are continuing to refine these analyses.

Mike Sullivan

From: Jerry Carter
Sent: Monday, February 12, 2018 4:20 PM
To: bsexton@bigsandyrecc.com; Mike Williams (mikew@bgenergy.com); CHRIS BREWER (cbrewer@clarkenergy.com) (cbrewer@clarkenergy.com); ted.hampton@cumberlandvalley.coop; jhazelrigg@fme.coop; carol.fraley@graysonrecc.com; Jerry Carter; carolwright@jacksonenergy.com; kkhoward@lvrecc.com; mmiller@nolinrecc.com; 'Dennis Holt' (dholt@skrecc.com); debbiem@shelbyenergy.com; bmyers@tccecc.com; tony.campbell@ekpc.coop; Don Mosier; Mike McNalley; david.crews@ekpc.coop; Bill Prather; tjsharp@srelectric.com
Cc: Hadden Dean; Allen Goggin External; Bill Peyton External; Jason Todd External; Joe Spalding External; Kevin Preston; Louis Kerrick External
Subject: Inter-County's Filing of the Notice of Intent to Exercise its Rights Under the Amendment 3 MOU

My Fellow Cooperative Managers,

After great care and painstaking discussion by the board of directors of Inter-County Energy, I am informing you that Inter-County has exercised its rights under the Amendment 3 MOU.

Inter-County is willing and hopeful that an equitable solution can be obtained that serves the entire membership of each member-owner of East Kentucky Power Cooperative.

Sincerely,

Jerry W. Carter

President/CEO

Inter-County Energy

P.O. Box 87

Danville, KY 40423-0087

1-888-266-7322 (toll free), Extension 7831

859-936-7831 (direct)

859-236-3627 (fax)

859-324-2446 Cell



Mike Sullivan

From: David Smart <david.smart@ekpc.coop>
Sent: Wednesday, February 14, 2018 10:46 AM
To: 'A.L. Rosenberger -- Nolin'; 'Alan Ahrman - Owen'; 'Barry Myers -- Taylor County'; 'Bill Prather -- Farmers'; 'Bobby Sexton'; 'Boris Haynes'; 'Carol Fraley -- Grayson'; 'Carol Wright - Jackson Energy'; 'Chris Brewer - Clark Energy'; 'Danny Wallen'; 'Debbie Martin -- Shelby'; 'Dennis Holt'; 'Elbert Hampton'; 'Jerry Carter'; 'Jimmy Longmire -- Salt River'; 'Jody Hughes'; 'Joe Spalding External'; 'Joni Hazelrigg'; 'Kelly Shepherd'; 'Ken Arrington -- Grayson'; 'Kerry Howard -- Licking Valley'; 'Landis Cornett'; 'Mark Stallons -- Owen'; 'Mickey Miller -- Nolin'; 'Mike Williams -- Blue Grass'; 'Paul Hawkins -- Farmers'; 'Raymond Rucker'; 'Ted Hampton'; 'Ted Holbrook'; 'Tim Eldridge'; 'Tim Sharp - Salt River Electric'; 'Wayne Stratton -- Shelby'; 'William Shearer -- Clark'
Cc: Tony Campbell; Don Mosier; Mike McNalley; David Crews; Jeannie Jones; Terri Combs; Shanan Strange
Subject: Resolution for Approval to Enter into Power Purchase Agreement (Amended)
Attachments: Approval to Enter into Power Purchase Agreement (Amended).pdf
Categories: South KY Request from Intervenors'

Dear Directors and CEOs,

As promised at yesterday's Board Meeting, I am sending to you the amended Board Resolution regarding EKPC's authority to enter into a power purchase agreement in the context of A3 and the MOU. I added the last sentence to the Resolution requiring Board review and approval of any such action by EKPC Management. I used Paul Hawkins' exact words. Thanks very much.

David

David Smart
General Counsel
East Kentucky Power Cooperative, Inc.
P.O. Box 707
Winchester, KY 40392-0707
(859) 745.9237 (DD)

Resolution

APPROVAL TO ENTER INTO POWER PURCHASE AGREEMENT

WHEREAS, on or about October 1, 1964, East Kentucky Power Cooperative (“EKPC”) entered into separate Wholesale Power Contracts with each of its Owner-Members. Each of the Wholesale Power Contracts contain identical provisions and under those contracts, EKPC sells and delivers to each of the sixteen Owner-Members and each of the sixteen Owner-Members purchases and receives, all electric power for the operations of their respective retail electric system; and

WHEREAS, in 2003 each Wholesale Power Contract was amended to permit each of the sixteen Owner-Members the ability to obtain power and energy from non-EKPC sources subject to certain limitations and required procedures, this amendment also known as “Amendment No. 3;” and

WHEREAS, on or about July 23, 2015, EKPC and each of the sixteen Owner-Members entered into a Memorandum of Understanding and Agreement Regarding Alternate Power Sources (“MOU”), which provides the framework by which the sixteen Owner-Members may pursue and contract with parties other than EKPC (“Alternate Source”) to satisfy a defined portion of their future power needs and includes provisions relating to, among other matters, limitations on the quantities of alternate source power that can be acquired by each Owner-Member, the length of the terms for which the alternate source power can be acquired, and the advance notice that must be provided by an Owner-Member before acquiring alternate-source power; and

WHEREAS, South Kentucky Rural Electric Cooperative Corporation (“South Kentucky”) has provided notice to EKPC, pursuant to the terms of the MOU, that it intends to reduce and substitute 58 MW of its purchases from EKPC by using electric power and energy from an Alternate Source beginning in mid-2019, and, further, South Kentucky has filed an Application with the Kentucky Public Service Commission to approve its power purchase agreement with its Alternate Source provider, Morgan Stanley Capital Group; and

WHEREAS, the proposed power purchase contract South Kentucky has entered into has precipitated a concern from other Owner-Members of EKPC that South Kentucky and other potential distribution cooperatives exercising rights under the MOU will be unfairly subsidized by entering into power purchase contracts, to the detriment of those cooperatives not entering into those agreements; and

WHEREAS, it has always been the earnest resolve of EKPC to be prudent and fair with all of its Owner-Members in its business decisions and conduct; and

WHEREAS, an Owner-Member exercising its rights under the MOU may create a situation that is, or is perceived to be, a disproportionate or unfair allocation of

Resolution

alternate power from an alternate source.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of EKPC hereby authorizes and empowers EKPC to take the most economical action within the Wholesale Power Contract to procure a power purchase agreement ("PPA") for those Owner-Members who do or did not have an opportunity, due to the original Amendment No. 3/MOU notice, to purchase a proportionate 5% allocation of alternate power from EKPC as an alternate source in complete compliance with the Wholesale Power Contract and Amendment No. 3. Any action taken by EKPC Management will be reviewed and approved by the Board of Directors.

Mike Sullivan

From: Jerry Carter
Sent: Thursday, February 15, 2018 6:44 AM
To: Mike Williams (mikew@bgenergy.com)
Subject: South Kentucky Amendment Three

Mike,

I am hoping that you may have some free time today for me to call you and discuss the South Kentucky Amendment Three issue.

Jerry W. Carter

President/CEO
Inter-County Energy
P.O. Box 87
Danville, KY 40423-0087
1-888-266-7322 (toll free), Extension 7831
859-936-7831 (direct)
859-236-3627 (fax)
859-324-2446 Cell



Mike Sullivan

From: Mike Williams <mikew@bgenenergy.com>
Sent: Thursday, February 15, 2018 6:47 AM
To: Jerry Carter
Subject: RE: South Kentucky Amendment Three

Jerry

Available now. I have a staff meeting at 8:30am. If now is not a good time, I will be available this afternoon. My cell is [REDACTED]

Sincerely,

Michael I. Williams
President/CEO
Blue Grass Energy

From: Jerry Carter [<mailto:jerry@intercountyenergy.net>]
Sent: Thursday, February 15, 2018 7:44 AM
To: Mike Williams
Subject: South Kentucky Amendment Three

Mike,

I am hoping that you may have some free time today for me to call you and discuss the South Kentucky Amendment Three issue.

Jerry W. Carter
President/CEO
Inter-County Energy
P.O. Box 87
Danville, KY 40423-0087
1-888-266-7322 (toll free), Extension 7831
859-936-7831 (direct)
859-236-3627 (fax)
859-324-2446 Cell



Mike Sullivan

From: Terri Combs <terri.combs@ekpc.coop>
Sent: Friday, February 16, 2018 7:15 PM
To: A L Rosenberger ; Alan Ahrman - Owen; Barry Myers -- Taylor County; Bill Prather -- Farmers; Bobby Sexton--Big Sandy; Boris Haynes; Carol Fraley -- Grayson; Carol Wright - Jackson Energy; Chris Brewer - Clark Energy; Debbie Martin -- Shelby; Dennis Holt; Elbert Hampton; Jerry Carter; Jimmy Longmire -- Salt River; Jody Hughes; Joe Spalding External; Joni Hazelrigg; Kelly Shepherd; Ken Arrington -- Grayson; Kerry Howard -- Licking Valley; Landis Cornett; Mark Stallons -- Owen; Mickey Miller -- Nolin; Mike Williams -- Blue Grass; Paul Hawkins -- Farmers; Raymond Rucker; Ted Hampton; Ted Holbrook; Tim Eldridge; Tim Sharp - Salt River Electric; Wayne Stratton -- Shelby; William Shearer -- Clark
Cc: Tony Campbell
Subject: Sending on behalf of Tony Campbell; RE: Directors and CEO's

Sending on behalf of Tony Campbell

Directors/CEO's,

At last Tuesday's board meeting, I was asked to create a committee to assist me in possibly finding resolution to the South Kentucky MOU issue. Following are the people I placed on the committee (the CEO's contacted me and requested to be on the committee): 1) Joe Spalding 2) Bill Shearer 3) Landis Cornett 4) Mike Williams 5) Tim Sharp 6) Chris Brewer and 7) Mark Stallons.

I'm planning on having a kickoff conference call mid next week. We will then wait to get a date from Dennis Holt to meet with the South Kentucky board. I would assume Chairman Spalding would then want to update the board on our findings.

Regards,
Anthony "Tony" Campbell
President and CEO
Phone: 859-745-9313
Fax: 859-744-7053



EKPC SAFETY IS
R.I.G.H.T.

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email or by calling East Kentucky Power Cooperative, Inc. at 859-744-4812 (collect), so that our address record can be corrected.

Mike Sullivan

Subject: Canceled: 2018 Quarterly Owner-Member CEO meeting
Location: Veech
Start: Tue 2/20/2018 8:30 AM
End: Tue 2/20/2018 12:00 PM
Show Time As: Free
Recurrence: (none)
Organizer: Terri Combs
Importance: High

Good morning,

Since we are focusing on the MOU, Tony feels that it is best to cancel the upcoming Quarterly Owner-Member CEO meeting that was scheduled on Tuesday, 2/20/18. We will pick up where we left off at the next meeting scheduled for May 21, 2018.

If you have any questions, please feel free to contact me.

Thanks so much,

Terri K. Combs
Executive Assistant - Paralegal
Office of the President/CEO
East Kentucky Power Cooperative, Inc.
PO Box 707
Winchester, KY 40392-0707
859-745-9314
terri.combs@ekpc.coop



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