

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

***DIRECT TESTIMONY OF CAROL ANN FRALEY
ON BEHALF OF INTERVENOR
GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION***

1 **Q: PLEASE STATE YOUR NAME AND BY WHOM YOU ARE EMPLOYED.**

2 A. Carol Ann Fraley. I am employed by Grayson Rural Electric Cooperative Corporation.

3 **Q. WHAT IS YOUR TITLE AT GRAYSON RURAL ELECTRIC COOPERATIVE**
4 **CORPORATION?**

5 A. I am President and CEO.

6 **Q. HOW LONG HAVE YOU HELD THE OFFICE THAT YOU NOW HOLD?**

7 A. I have been the Chief Executive Officer of Grayson Rural Electric Cooperative
8 Corporation since 1994 after having commenced my employment at Grayson Rural
9 Electric in the month of July 1979, first as Member Services Representative and then
10 Director of Member Services before becoming the President and Chief Executive Officer.

11 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

12 A. I have a Bachelor's Degree in Production Agriculture from Morehead State University
13 and a Master's Degree in Agriculture/Education from the University of Kentucky having
14 acquired my degrees in 1980.

15 **Q. PLEASE SET FORTH THE ESSENTIAL FUNCTIONS OF YOUR TASKS AS**
16 **PRESIDENT AND CEO OF GRAYSON RURAL ELECTRIC COOPERATIVE**
17 **CORPORATION.**

18 A. I am responsible for the overall management and day to day affairs of the Cooperative's
19 business, supervising all departments and employees as well as working with the public
20 and serving the Board of Directors and implementing the policies and other legitimate
21 business directives of the Board of Directors. These duties include strategic plan

22 development, and maintaining the provision of electric service to our over 15,000
23 members in the counties of Lewis, Greenup, Carter, Rowan, Elliott, and Lawrence in
24 Northeast Kentucky.

25 **Q. IS GRAYSON RURAL ELECTRIC A MEMBER/OWNER OF EAST**
26 **KENTUCKY POWER COOPERATIVE?**

27 A. Yes. East Kentucky Power Cooperative (EKPC) is the generation and transmission (G
28 and T) for the 16 member owners of EKPC. EKPC generates and acquires power for the
29 16 member owners, of which Grayson Rural Electric is 1 of 16 for ultimate distribution to
30 electric consuming facilities served by the distribution cooperatives which number is in
31 excess of 530,000 members, collectively.

32 **Q. DOES GRAYSON RURAL ELECTRIC COOPERATIVE PURCHASE ALL OF**
33 **ITS POWER ON A WHOLESALE BASIS FROM EKPC?**

34 A. Yes. Grayson Rural Electric Cooperative Corporation and the other 15 member owners of
35 EKPC, including South Kentucky Rural Electric Cooperative Corporation purchase
36 power under an all requirements contract entered into with EKPC as amended.

37 **Q. WHAT IS THE AMENDMENT THAT HAS BEEN MADE TO THE**
38 **WHOLESALE POWER CONTRACT WITH EKPC?**

39 A. The wholesale power contract between EKPC and the member systems has been
40 amended from time to time with the most recent amendment known as Amendment 3.
41 Amendment 3 arose out of litigation in other parts of the country and was entered into so
42 as to give the member owners the ability to purchase power from a source other than
43 EKPC under certain conditions. Amendment 3 allowed the purchase of power from an

44 alternative source to the extent that purchase did not exceed 15% of a distribution
45 cooperative's load and so long as in the aggregate, alternative source power purchased by
46 the other distribution cooperatives did not exceed 5% of the load of EKPC.

47 **Q. DO YOU HAVE AN UNDERSTANDING OF WHETHER THE PURCHASE OF**
48 **ALTERNATIVE POWER BY ALL 16 MEMBERS OF EKPC TO THE EXTENT**
49 **OF THEIR 15% LIMIT WOULD EXCEED 5% OF THE EKPC LOAD?**

50 A. Yes. It is my understanding that when computing the total of the 16 member/owners
51 15% load, it, in the aggregate would exceed 5% of the EKPC load.

52 **Q. DID THERE COME A TIME WHEN THE MEMBER SYSTEMS ENTERED**
53 **INTO A DOCUMENT STYLED *MEMORANDUM OF UNDERSTANDING (MOU)***
54 **WITH THE PURPORTED GOAL OF SETTING FORTH A MECHANISM FOR**
55 **IMPLEMENTING THE PROVISIONS OF AMENDMENT 3?**

56 A. Yes.

57 **Q. DID GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION**
58 **EXECUTE THE MEMORANDUM OF UNDERSTANDING?**

59 A. Yes.

60 **Q. WHAT WERE THE CIRCUMSTANCES SURROUNDING THE EXECUTION**
61 **OF THE MEMORANDUM OF UNDERSTANDING BY GRAYSON RURAL**
62 **ELECTRIC COOPERATIVE CORPORATION?**

63 A. In 2012, Grayson Rural Electric Cooperative Corporation sought the purchase of 9.7 MW
64 of power from an alternate source. This number would equate to 15% of the load of

65 Grayson Rural Electric Cooperative Corporation. Notice was given to EKPC of
66 Grayson's desire to purchase this 9.7 MW of power and a petition was filed with the
67 Kentucky Public Service Commission to seek approval of that purchase. This petition
68 was assigned case number 2012-00503 and resulted in the Commission entering an order
69 directing the matter to proceed and directing any interested distribution cooperative to
70 intervene. Several cooperatives in the EKPC intervened although not all. The
71 Commission directed discovery to be taken and in fact depositions and other discovery
72 was undertaken. Grayson Rural Electric Cooperative Corporation ultimately filed a
73 motion with the Commission seeking the assignment of a date for a hearing on the
74 application. The application filed by Grayson Rural Electric Cooperative Corporation had
75 been amended during the discovery process to note a contract being sought to be
76 approved. The contract filed by Grayson is similar to the contract sought to be approved
77 by South Kentucky in this case. The case that Grayson sought to be approved was also a
78 contract with Morgan Stanley Capital Group whereby Grayson Rural Electric
79 Cooperative Corporation would purchase 9.7 MW of power, similar to that being
80 requested by South Kentucky Rural Electric Cooperative Corporation herein.

81 **Q. DID THE COMMISSION ASSIGN A DATE FOR HEARING?**

82 A. No.

83 **Q. DID THERE COME A TIME DURING THE COURSE OF THE PROCEEDING,**
84 **WHEN GRAYSON RURAL ELECTRIC AGREED TO END ITS QUEST AND**
85 **SIGN THE MEMORANDUM OF UNDERSTANDING?**

86 A. Yes.

87 **Q. HOW DID IT COME ABOUT THAT GRAYSON RURAL ELECTRIC**
88 **COOPERATIVE CORPORATION SIGNED THE MEMORANDUM OF**
89 **UNDERSTANDING?**

90 A. The Memorandum of Understanding generally, had as its origin, the 2012-00503 case
91 that had been filed by Grayson. EKPC had opposed the request by Grayson and the
92 response by other distribution cooperatives that intervened was, in a word, tepid. After
93 the passage of time Grayson Rural Electric Cooperative Corporation determined that it
94 would abandon its purchase of alternate source power, sign the MOU, agree to a
95 dismissal of its petition, and ask EKPC to sign the MOU. Several months later, EKPC,
96 which I believe to be in September 2015, executed the MOU.

97 **Q. IS THERE ANY OBJECTION BY GRAYSON RURAL ELECTRIC**
98 **COOPERATIVE CORPORATION TO THE APPROACH TAKEN BY SOUTH**
99 **KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION IN THE**
100 **WITHIN MATTER?**

101 A. Grayson Rural Electric Cooperative Corporation does not object to South Kentucky Rural
102 Electric being able to purchase 58 MW of power but believes that if the purchase of same
103 results in an inequitable and detrimental cost shifting burden upon the other cooperatives
104 including Grayson then the request would have a negative or adverse impact upon
105 Grayson Rural Electric Cooperative Corporation's members and should be disallowed.
106 Should EKPC be able to absorb without negative effect, upon Grayson and the other
107 distribution cooperatives, these shifts in costs by utilization of its own existing margins
108 and through PJM then Grayson Rural Electric Cooperative Corporation would have no
109 objection.

110 **Q. DOES GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION**
111 **BELIEVE THAT IT SHOULD BE ALLOWED TO UTILIZE ITS 9.7 MW OF**
112 **ALTERNATIVELY SOURCED POWER IRRESPECTIVE OF THE SUCCESS**
113 **OF SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE**
114 **CORPORATION IN ITS REQUEST IN THE WITHIN ACTION?**

115 A. Yes. Grayson Rural Electric Cooperative Corporation believes that it should in the
116 future, should it desire to do so, be allowed to acquire 9.7 MW of alternatively sourced
117 power should it become financially advantageous as Grayson was the initial requestor of
118 this alternatively sourced power and should not be made to suffer negative consequences
119 as result of any “run on the bank” or maximization of the 5% of EKPC load without
120 regard to the 9.7 MW of power, being 15% of Grayson’s load, that it would otherwise
121 have been entitled to utilize.

122 **Q. DOES GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION**
123 **OBJECT TO SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE**
124 **CORPORATION BEING ENTITLED TO REENTER THE WHOLESALE**
125 **POWER CONTRACT TO THE EXTENT OF 58 MW PURCHASED FROM**
126 **EKPC SHOULD SOUTH KENTUCKY’S APPLICATION BE DENIED IN THE**
127 **WITHIN ACTION?**

128 A. Grayson Rural Electric Cooperative Corporation has no objection to waiving any period
129 of time for reentry into the wholesale power contract requirements by South Kentucky
130 should their application herein be rejected.

131 **Q. ARE THERE ANY OTHER CONCERNS THAT YOU BELIEVE WOULD BE OF**
132 **A CONCERN TO GRAYSON RURAL ELECTRIC COOPERATIVE**
133 **CORPORATION SHOULD THE REQUEST OF SOUTH KENTUCKY BE**
134 **GRANTED IN THE WITHIN ACTION?**

135 A. I would be concerned about these cost shifting problems and a potential resultant
136 financial burden because of any need to then file a rate increase request. Our members in
137 many respects, are in economically depressed areas, have fixed incomes, that have not
138 risen with the increase of the cost of living and they would be harmed by a negative
139 financial impact occasioned by this type of factor rather than one simply related to an
140 increase in the cost of producing and distributing power. Increases in costs are common
141 and are bound to occur but I believe that they should not be done artificially.

142 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

143 A. Yes.

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VERIFICATION OF CAROL ANN FRALEY

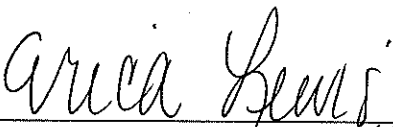
The undersigned Carol Ann Fraley President and Chief Executive Officer of Grayson Rural Electric Cooperative Corporation after first being duly sworn deposes and states as follows:

That she has read the foregoing, has directed the preparation of the foregoing testimony, has reviewed it, and verily states that she would respond in the same manner to the questions set forth hereinabove if so asked orally in a hearing while under oath from a witness stand and that the above testimony is true and accurate to the best of her knowledge and belief formed after a reasonable inquiry.



 CAROL ANN FRALEY

The foregoing Verification was signed, acknowledged and sworn to before me this the 12th day of April, 2018 as President and Chief Executive Officer of Grayson Rural Electric Cooperative Corporation and is the act of and position of Grayson Rural Electric Cooperative Corporation.



 Notary Public, Notary # 581825
 Commission expires: 6/23/2021