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PUBLIC SERVICE
COMMISSION

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February 11, 2018

Kentucky Public Service Commission
P.O. Box 615
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Commissioners:

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

I am a member of South Kentucky RECC (SKRECC) and if what they claim about the savings in this Case is accurate then my hat is off to them. However, there are too many facts that are not clearly stated. This is in addition to what has been redacted in the public filing.

My concerns are four-fold. First, I do not believe that SKRECC has provided enough information in their filing so that Commission Staff can properly audit the calculations that were used to justify the proposal. Second: I believe some omissions and mistakes have been made that would affect the outcome of the analysis. Third: it appears that the ongoing costs of this transaction would be buried in SKRECC's distribution expenses so that the true annual cost of the transaction will be difficult to ascertain. Fourth: SKRECC wants to keep the savings from this initiative rather than share them with their Member-Owners.

Information lacking:

- The interest rate used for calculating the NPV. SKRECC claims the NPV (Confidentiality Motion; Page 2, Line 4) itself should be confidential, but there is no reason the interest rate essential to calculating the NPV should be confidential.
- The values for the PJM capacity prices used in the financial hedge calculation. (Babbit; Page 14, Line 17). The prices I have found for the first two years are below. However, what did EnerVision use for the next 18 years?

Year	Price
2019-2020	\$96.77/MW-day
2020-2021	\$76.83/MW-day

PJM Auction Results
Private source

- Estimated market costs used for transmission and ancillary services rates. (Babbit; Page 11 Line 17)
- The cost for SKRECC to become a market participant in PJM. Babbit (Page 18 Line 18) comments that this is "not particularly burdensome nor expensive." How would we know?

- Babbit is quite unclear as to whether there are annual membership fees associated with the PJM membership.
- There is a clear lack of discussion of what it will cost to get the energy from the EKPC/PJM node to SKRECC's territory. At one place there is mention of EKPC's FERC transmission tariff. At another there is mentioned joining PJM, which in itself might include the required transmission services.

Omissions and/or possible errors

- In its motion for Confidential Treatment (Page 2; Line 18) SKRECC says' *"If disclosed, the confidential information would give South Kentucky's competitors insights into the cooperative's business operations and strategies that are otherwise publicly unavailable."* I do not disagree that some of the information needs to be kept confidential. However, the argument in the above sentence is questionable. SKRECC is a legal monopoly with a closed service territory. Who could their competitors be?
- If SKRECC is purchasing only MW and not VARS, will there be a charge for VAR support since SKRECC's load does not have a unity power factor?
- Does SKRECC plan to add additional personnel or dedicate existing personnel to managing the relationship with the alternative source, such as a Purchased Power Administrator?
- How does SKRECC plan to ensure that the energy purchased is received? Does it expect EKPC to do this for them and are there any charges from EKPC for this service?
- Babbit states that EnerVision's analysis used SKRECC's historical load profile for 2016 (Page 8, Line 1). However, Hermann's statement on Page 6, Line 14 implies that the more accurate historical year to use for analysis is 2012. SKRECC sold 4.9% less energy in 2012 than it did in 2016.
- Babbit states on Page 7, Line 21 that EKPC's rate E2 was used for the analysis. However, SKRECC potentially sells power and energy from two other EKPC rates, Rate B and Rate C, which have different demand and energy rates from E2. B and C are rates used for high load factor industrial and large commercial loads. Based on SKRECC's 2012 Financial Report, large customers on Rates B and C could account for 30% of energy purchases. Why were these loads not factored into the analysis?

Rate	Demand Chg	On-Peak Energy Chg	Off-Peak Energy Chg
E2	\$6.02/kW	\$0.0500899/kWh	\$0.042172/kWh
B	\$7.17/kW base \$9.98/kW excess	\$0.040502/kWh	\$0.040502/kWh
C	\$7.17/kW	\$0.040502/kWh	\$0.040502/kWh

EKPC's tariff as approved on 11/2/2017

- Based on SKRECC's peak annual load for 2012 (309,384 kW in February) and its total purchased energy for 2012 (1,256,982,022 kWh) it has a load factor for the year of 46%. With a load factor this low it is quite conceivable that there will be times when SKRECC's actual load will be less than 58,000 kW. Were there any times in 2012 when this happened? What happens if the SKRECC load falls below 58,000 kW? Will EKPC and the other Member Systems be expected to subsidize SKRECC and buy the power at these times?

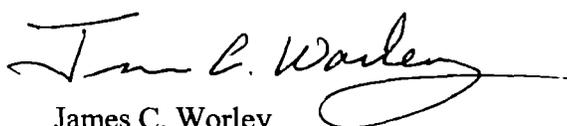
Transparency in reporting costs

- On Page 12, Line 19 of her testimony, Mrs. Hermann states: *The expenditures under this power purchase agreement will be treated as expenses in the normal course of business as required for the delivery of electricity.* However, this not a normal course of business for a distribution system – at least not in Kentucky. On the annual financial report submitted to the PSC there are accounts listed that are pertinent to the costs of transmission services (Ref. Page 15). Should not the cost of PJM and EKPC transmission services purchased for this transaction be listed here instead of in the distribution services section? Should there also be separate line items for labor and other costs?
- Will SKRECC be required to report as a separate line item on its annual financial report to the PSC the cost of energy purchased through this agreement or will it be able to bury those costs by aggregating it into the average price it pays for energy from EKPC and the alternative source?¹

Sharing savings with Member-Owners

- On Page 14, Line 1 et. al. in response to a question as to what SKRECC is going to do with the savings, Hermann essentially says that the Cooperative is going to keep the savings so it can pay for projects it wants to do and also put off a rate increase. What are these projects and how are they going to benefit the Member-Owners? By her own table on Page 4, Hermann shows that the Cooperative's TIER is currently running at 197% of what is required by RUS and that the DSC is at 149% of requirement. Is a rate increase really expected in less than 12 months? In her statement, Hermann makes it sounds like SKRECC is tired of cutting costs and wants to use the savings so they can stop being thrifty. SKRECC is doing an excellent job of controlling its Net O&M Cost per customer. Their cost for 2016 is the fourth lowest of the 16 EKPC-served systems. They should be encouraged to continue to do so. The savings should be passed directly back to the Member-Owners.

Respectfully,



James C. Worley

c: SKRECC, EKPC, Attorney General

Disclosure: Except for my membership in the Cooperative, I have no personal or financial connection with SKRECC. I am a retired engineer from EKPC. I retired in 2008. Except for some old friends at EKPC, I have no other personal and no financial connection with EKPC. Except for asking a friend at EKPC to try to explain how transmission pricing works, I have not consulted EKPC regarding this document.

¹It is believed that there are currently at least two Member Systems of EKPC that purchase power from an alternative source. In both of those systems' annual report, there does not appear any identification of more than one source of power (EKPC). How are the Member-Owners of these systems to judge whether the systems are acting in their best interest?