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PUBLIC SERVICE
COMMISSION

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)	

ATTORNEY GENERAL’S INITIAL DATA REQUESTS

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits these Initial Data Requests to South Kentucky Rural Electric Cooperative Corporation [hereinafter “SKRECC”] to be answered by the date specified in the Commission’s Order of Procedure, and in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Identify the witness who will be prepared to answer questions concerning each request.
- (3) Repeat the question to which each response is intended to refer. The Office of the Attorney General can provide counsel for SKRECC with an electronic version of these questions, upon request.
- (4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.
- (5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification

of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

(6) If you believe any request appears confusing, request clarification directly from Counsel for the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, identify each variable contained in the printout which would not be self-evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, notify the Office of the Attorney General as soon as possible.

(10) As used herein, the words "document" or "documents" are to be construed broadly and shall mean the original of the same (and all non-identical copies or drafts thereof) and if the original is not available, the best copy available. These terms shall include all information recorded in any written, graphic or other tangible form and shall include, without limiting the generality of the foregoing, all reports; memoranda; books or notebooks; written or recorded statements, interviews, affidavits and depositions; all letters or correspondence; telegrams, cables and telex messages; contracts, leases, insurance policies or other agreements; warnings and caution/hazard notices or labels; mechanical and electronic recordings and all information so stored, or transcripts of such recordings; calendars, appointment books,

schedules, agendas and diary entries; notes or memoranda of conversations (telephonic or otherwise), meetings or conferences; legal pleadings and transcripts of legal proceedings; maps, models, charts, diagrams, graphs and other demonstrative materials; financial statements, annual reports, balance sheets and other accounting records; quotations or offers; bulletins, newsletters, pamphlets, brochures and all other similar publications; summaries or compilations of data; deeds, titles, or other instruments of ownership; blueprints and specifications; manuals, guidelines, regulations, procedures, policies and instructional materials of any type; photographs or pictures, film, microfilm and microfiche; videotapes; articles; announcements and notices of any type; surveys, studies, evaluations, tests and all research and development (R&D) materials; newspaper clippings and press releases; time cards, employee schedules or rosters, and other payroll records; cancelled checks, invoices, bills and receipts; and writings of any kind and all other tangible things upon which any handwriting, typing, printing, drawings, representations, graphic matter, magnetic or electrical impulses, or other forms of communication are recorded or produced, including audio and video recordings, computer stored information (whether or not in printout form), computer-readable media or other electronically maintained or transmitted information regardless of the media or format in which they are stored, and all other rough drafts, revised drafts (including all handwritten notes or other marks on the same) and copies of documents as hereinbefore defined by whatever means made.

(11) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(12) In the event any document called for has been destroyed or transferred beyond the control of the company, state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(13) Provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response, in compliance with Kentucky Public Service Commission Regulations.

(14) "And" and "or" should be considered to be both conjunctive and disjunctive, unless specifically stated otherwise.

(15) "Each" and "any" should be considered to be both singular and plural, unless specifically stated otherwise.

Respectfully submitted,

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Certificate of Service and Filing

Counsel certifies that an original and ten (10) photocopies of the foregoing were served and filed by hand delivery to Ms. Gwen Pinson, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

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This 28th day of February, 2018



Assistant Attorney General

1. Can SKRECC guarantee that in the event the Commission approves the transaction as proposed, the remaining EKPC member-owner cooperatives will not have increased wholesale power costs from EKPC as a result?
2. Assuming the Commission approves the transaction as proposed, and assuming further that EKPC raises its wholesale power rates, will SKRECC not also see increased wholesale power costs from EKPC as a result? If SKRECC so confirms, state whether that potential rate increase is reflected in SKRECC's projected savings set forth in numerical paragraph one of its application.
3. State whether the projected savings set forth in numerical paragraph one include any and all projected costs SKRECC will incur as a result of becoming a PJM member and market participant.
 - a. Reference the Holt testimony at p. 13, wherein he states that under SKRECC's proposal, EKPC will serve as SKRECC's agent to accomplish various market participant activities. Provide the costs SKRECC anticipates as part of this Application paying EKPC for performing these services.
 - b. Regarding any costs SKRECC anticipates paying EKPC for performing services as a market participant, state whether those costs were included in SKRECC's cost-benefit analysis.
 - c. Provide: (i) a discussion of the types of PJM costs for which SKRECC becomes responsible for upon PJM membership; and (ii) an estimate of all such costs associated with PJM membership and/or status as a market participant.
 - d. Provide an estimate of cost penalties SKRECC would incur if it terminates its PJM membership.
4. Assuming the Commission approves the transaction as proposed, will SKRECC participate in PJM's capacity performance markets? Discuss in complete detail.
 - a. If the response to this question is in the affirmative, discuss how SKRECC proposes to address the financial risk associated with potential PJM capacity performance market penalties that could be imposed if SKRECC is unable to dispatch its Alternate Source into PJM. Any discussion should reference and explain the December 19, 2017 letter from Morgan Stanley Commodities to SKRECC regarding "FINANCIAL CAPACITY CONFIRMATION", wherein on page two (2) in describing the "product", the letter states, "This Transaction is not tied to or contingent upon, any specific generation unit(s) or that any specific generation unit(s) be operating or operational. MSCG does not represent or warrant that this financially-settled Product will satisfy any of SKRECC's RPM-imposed performance obligations to PJM."

- b. Discuss whether the financial capacity hedge of 68 MW discussed on p. 11 of the Holt testimony would mitigate any risk that potential PJM capacity performance market penalties may pose.
 - (1) If SKRECC's response to subpart b., above is in the affirmative, explain why that hedge would only be in effect for 18 years of the 20-year proposal. Explain whether SKRECC intends to obtain a second hedge to cover the two years that would not be covered.
 - c. Describe any costs SKRECC will or could incur in order to mitigate the financial risk associated with potential PJM capacity performance market penalties. Provide complete details, and state whether the costs SKRECC will or could incur in mitigating that risk were considered in SKRECC's cost-benefit analysis.
5. Reference Application Exhibit 7, the Morgan Stanley Capital Group, Inc. ["Morgan Stanley"] confirmation letter dated December 19, 2017, regarding "Firm Physical Energy Confirmation," p. 5, no. 17 ("Environmental Change in Law"). Discuss the measures SKRECC can or might take to mitigate the financial risk associated with any additional environmental costs that Morgan Stanley may incur and pass on to SKRECC.
- a. Does SKRECC know whether any other utilities which have entered into contracts similar to the one proposed in the instant transaction have had to pay additional sums due to either changes in environmental law, or to "additional environmental costs" as that term is defined in section 23 of Application Exhibit 8, Morgan Stanley's confirmation letter dated December 19, 2017 regarding "Financial Capacity Confirmation"? Discuss in complete detail.
 - b. Provide an explanation of what "additional environmental costs" SKRECC believes apply under this section and what risks are involved with these costs. Were any of these risks and costs considered by SKRECC? If so, where in the Application or testimony can they be located?
 - c. If any such "additional environmental costs" become excessive, discuss: (i) what measures SKRECC could take to terminate the agreement; (ii) the penalties AND costs it would incur for doing so (including any penalties from PJM and the costs of capacity and energy moving forward); and (iii) the measures SKRECC could take to obtain replacement power.
6. Reference Application Exhibit 8, the Morgan Stanley Confirmation Letter dated December 19, 2017 regarding "Financial Capacity Confirmation" section no. 21 ("Special Provision Regarding Pricing Finality") which discusses the "unknown and unquantifiable" consequences resulting from the District of Columbia Circuit Court ruling in NRG Power Marketing, LLC vs. FERC (Case no. 15-1452, July 7, 2017)

which in turn vacated, in part, and remanded to the Commission for further proceedings, two Commission orders conditionally accepting in part, and rejecting in part, PJM Interconnection, LLC's (PJM) proposed revisions to its minimum offer price rule (MOPR). Provide a discussion of the impact and ramifications that the FERC's order on remand, issued December 7, 2017 in FERC Docket ER13-535-004, will have on the proposed transaction.

7. Does the agreement with Morgan Stanley require SKRECC to pay any transmission costs associated with obtaining the Alternative Source power? If so: (i) discuss in detail and provide estimates of all such costs; and (ii) state whether such costs were included in SKRECC's cost-benefit analysis. If such costs were not included in any cost-benefit analysis, why were they not included?
8. Reference the Herrman testimony, p. 11, wherein she states that SKRECC may be required to post significant collateral, and that if that should occur, SKRECC intends to fulfill that requirement by providing an additional line of credit to Morgan Stanley. State whether the potential costs for securing such an additional line of credit were considered in SKRECC's cost-benefit analysis.
 - a. Does SKRECC agree that Commission approval would be necessary for any "additional line of credit?"
9. Reference the Master Power Purchase and Sale Agreement, "Other Changes," changes to Section 5.2.
 - a. Provide a definition for "commercially reasonable manner" as used on lines 9-10 and in the context of this agreement.
 - b. Provide the term and discount rate that will be used by the Non-Defaulting Party under this section.
 - c. Explain the sentence, "It is expressly agreed that neither Party shall be required to enter into a replacement transaction in order to determine a market price."
 - d. Does SKRECC agree that if it is the Non-Defaulting Party, as defined in this agreement, it will have to replace both energy and capacity upon an early termination? If so, why does SKRECC believe it is not prudent to ensure that the early termination amount makes SKRECC and its members whole as to replacement energy and capacity expense?
10. What actions has SKRECC taken to reduce the impact of an early termination by MSCG in the event MSCG chooses to terminate early or defaults? What does SKRECC believe the most likely causes of default or early termination are for MSCG (i.e. market risk, change in law)?

11. Does SKRECC agree that in the event MSCG elects to terminate the agreement early due to increased market risks, such as changes to the forward price curve of electricity, that SKRECC may have to replace power in the same market?
12. If the Application of South Kentucky is approved as filed, provide all studies, estimates or projections of the effect on the base rates and environmental surcharges of the fifteen other member distribution cooperatives of EKPC.
13. If the Application of South Kentucky is approved as filed, then provide all studies, estimates or projections of the effect on the financial credit metrics and borrowing costs of EKPC.
14. If the Application of South Kentucky is approved as filed, then provide all studies, estimates or projections of the effect on the generation reserve margin of EKPC.
15. Provide South Kentucky's total retail sales for the most recent five years.
16. Provide South Kentucky's system peak demands for the most recent five years.
17. Under the November 13, 2003 Amendment No. 3 and the July 23, 2015 Memorandum of Understanding, for the most recent year where data is available, what is the maximum amount of MW (capacity) that can be purchased from Alternative Sources by South Kentucky?
18. Under the November 13, 2003 Amendment No. 3 and the July 23, 2015 Memorandum of Understanding, for the most recent year where data is available, what is the maximum amount of MW (capacity) that can be purchased from Alternative Sources by all sixteen member owners?
19. Under the November 13, 2003 Amendment No. 3 and the July 23, 2015 Memorandum of Understanding, for the most recent year where data is available, what is the maximum amount of MWh (energy) that can be purchased from Alternative Sources by South Kentucky?
20. Under the November 13, 2003 Amendment No. 3 and the July 23, 2015 Memorandum of Understanding, for the most recent year where data is available, what is the maximum amount of MWh (energy) that can be purchased from Alternative Sources by all sixteen member owners?