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February 28, 2018

Via Hand-Delivery

RECEIVED

FEB 2 8 2018

PUBLIC SERVICE COMMISSION

Ms. Gwen Pinson
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: 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

Dear Gwen:

Please find enclosed for filing in the record of the above-referenced case an original and ten (10) copies of East Kentucky Power Cooperative, Inc.'s First Information Request to South Kentucky Rural Electric Cooperative Corporation. Please return a file-stamped copy of this filing to my office.

Please do not hesitate to contact me if you have any questions or concerns.

Very truly yours,

RANSDELL ROACH & ROYSE PLLC

David T. Royse

Enclosures

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(859) 276-6262 FAX: (859) 276-4500
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RECEIVED

FEB 28 2018

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

EAST KENTUCKY POWER COOPERATIVE, INC.
FIRST INFORMATION REQUEST TO
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

South Kentucky Rural Electric Cooperative Corporation ("South Kentucky"), pursuant to the Order dated February 19, 2018 and amended February 20, 2018 is requested to file responses to the following requests for information by March 7, 2018, with copies to the Commission and to all parties of record, and in accordance with the following:

1. Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response.

2. If any request appears confusing, please request clarification directly from East Kentucky Power Cooperative, Inc. ("EKPC").

3. The responses provided should first restate the question asked and also identify the person(s) supplying the information.

4. Please answer each designated part of each information request separately. If you do not have complete information with respect to any interrogatory, so state and give as much information as you do have with respect to the matter inquired about, and identify each person whom you believe may have additional information with respect thereto.

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

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

7. If South Kentucky objects to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify EKPC as soon as possible.

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

9. "Document" means the original and all copies (regardless of origin and whether or not including additional writing thereon or attached thereto) of memoranda, reports, books, manuals, instructions, directives, records, forms, notes, letters, notices, confirmations, telegrams, pamphlets, notations of any sort concerning conversations, telephone calls, meetings or other communications, bulletins, transcripts, diaries, analyses, summaries, correspondence investigations, questionnaires, surveys, worksheets, and all drafts, preliminary versions, alterations, modifications, revisions, changes, amendments and written comments concerning the foregoing, in whatever form, stored or contained in or on whatever medium, including computerized memory or magnetic media. A request to identify a document means to state the date or dates, author or originator, subject matter, all addressees and recipients, type of document (e.g., letter, memorandum, telegram, chart, etc.), code number thereof, or other means of identifying it and its present location and custodian. If any such document was, but is no longer in South Kentucky's possession or subject to its control, state what disposition was made of it, including the date of such disposition.

10. "Study" means any written, recorded, transcribed, taped, filmed, or graphic matter, however produced or reproduced, either formally or informally, considering or evaluating a particular issue or situation, in whatever detail, whether or not the study of the issue or situation is in a preliminary stage, and whether or not the study discontinued prior to completion.

11. "Person" means any natural person, corporation, professional corporation, partnership, association, joint venture, proprietorship, firm, or the other business enterprise or legal entity. A request to identify a natural person means to state his or her full name

and residence address, his or her present last known position and business affiliation at the time in question. A request to identify a person other than a natural person means to state its full name, the address of its principal office, and the type of entity.

12. "And" and "or" should be considered to be both conjunctive and disjunctive, unless specifically stated otherwise. "Each" and "any" should be considered to be both singular and plural, unless specifically stated otherwise. Words in the past tense should be considered to include the present, and words in the present tense include the past, unless specifically stated otherwise. "You" or "your" means the person whose filed testimony is the subject of these interrogatories and, to the extent relevant and necessary to provide full and complete answers to any request, "you" or "your" may be deemed to include any person with information relevant to any interrogatory who is or was employed by or otherwise associated with the witness or who assisted, in any way, in the preparation of the witness' testimony.

13. Respondent means South Kentucky and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.

Respectfully submitted,

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Counsel for East Kentucky Power Cooperative, Inc.

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing was deposited in the custody and care of the U.S. Mail, postage prepaid, on this 28th day of February, 2018, addressed to the following:

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Counsel for East Kentucky Power Cooperative, Inc.

1. Please provide the following information concerning EnerVision, Inc. ("EnerVision"):

   a. When did South Kentucky begin utilizing EnerVision's services?

   b. How was EnerVision selected to provide consulting services for South Kentucky?

2. If the Commission approves the proposed Master Power Purchase and Sale Agreement ("Agreement"), will EnerVision continue to provide consulting services to South Kentucky related to the Agreement?

3. Please provide the following information concerning South Kentucky's request for proposals ("RFP") which sought to identify additional potential counterparties capable of providing competitively-priced wholesale power at the desired quantity of 58 MW:

   a. How many of the RFP responses were considered to be responsive to South Kentucky's request and were evaluated?

   b. Describe the evaluation process for the RFP responses and explain the involvement of South Kentucky and EnerVision in the evaluation process.

4. In two previous cases where the applicant utility sought confidential protection of the cost of power contracts, the Commission has denied confidential treatment. The Commission stated, among other reasons, that the utility's customers have a right to know the financial consequences of the proposal since those customers will be required to pay for the costs of the project or contract.[1] Concerning the request for confidential treatment of certain pricing terms and sensitive

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[1] *See In the Matter of Application of Kentucky Power Company for Approval of the Terms and Conditions of the Renewable Energy Purchase Agreement for Biomass Energy Resources Between the Company and EcoPower Generation-Hazard LLC; Authorization to Enter into the Agreement; Grant of Certain Declaratory Relief; and Grant of All Other Required Approvals and Relief*, Order, Case No. 2013-00144, p. 22 (Ky. P.S.C., Oct. 10, 2013) and *In the Matter of Application of East Kentucky Power Cooperative, Inc. for an Order Declaring the Glasgow Landfill Gas to Energy Project to be an Ordinary Extension of Existing Systems in the Usual Course of Business and a Joint Application of Farmers Rural Electric Cooperative Corporation and East Kentucky Power Cooperative, Inc. for Approval to Enter Into a Ten Year Purchased Power Agreement and Approval of a Special Contract*, Order, Case No. 2014-00292, p. 5 (Ky. P.S.C., Mar. 30, 2015).

information included in the Agreement, please explain what distinguishes this Application from the previous applications where confidential treatment was denied.

5. Please refer to Exhibit 5 of the Application, the Agreement, Article 10.8 – General.

   a. Please provide examples of the actions or events that would be considered "Regulatory Events" as used in the Agreement.

   b. The Agreement states that if a Regulatory Event occurs, the Parties shall use their best efforts to reform the Agreement in order to give effect to the original intention of the Parties. Please indicate whether these "best efforts" could include adjusting the amount of power to be purchased under the Agreement by South Kentucky and/or the price to be paid for such power.

6. Please refer to Exhibit 5 of the Application, the Agreement, Schedule P. Please explain the difference between the following terms as used in the Agreement:

   a. The Delivery Point.

   b. The Receiving Transmission Provider.

   c. The Designated Interface. If possible, please identify this entity by name.

   d. The Alternate Designated Interface. If possible, please identify this entity by name.

7. Please refer to Exhibit 5 of the Application, the Agreement, Schedule P, Section 1 – Prescheduling and Notification. Please explain why the prescheduling deadline is stated as Central Prevailing Time instead of Eastern Prevailing Time. Exhibit 7 of the Application, the Firm Physical Energy Confirmation, Section 7 – Delivery Period, states the delivery times as Eastern Prevailing Time.

8. Please refer to Exhibit 5 of the Application, the Agreement, Schedule P, Section 6 – Multiple Parties in Delivery Chain Involving a Designated Interface. Please provide the following

information concerning the power that South Kentucky has contracted to purchase from Morgan Stanley Capital Group Inc. ("Morgan Stanley").

a. Will the power be originally generated by assets physically located within the Commonwealth of Kentucky? If no, please indicate the location of the generating assets associated with this transaction.

b. Does Morgan Stanley own the generating assets that will be providing the power sold to South Kentucky or does Morgan Stanley only have the contractual right to resell this power? Also, are the owners of the generating assets subject to the jurisdiction of the Commission?

c. Please indicate whether the generating assets are coal fired, natural gas fired, nuclear, hydro, or renewables.

d. Please explain the financial impact to South Kentucky should Morgan Stanley fail to deliver physical energy from such asset or assets during a PJM Interconnection, LLC ("PJM") Performance Assessment Hour event. Please include in the explanation whether South Kentucky, its Board, and EnerVision considered the possibility of such an event.

e. For purposes of this question, please assume the following. There are no Morgan Stanley owned or controlled generating assets involved in the proposed transaction, and PJM declares a Performance Assessment Hour or Hours per its Capacity Performance rules that impacts EKPC as a result of any EKPC owned-asset forced outages during the period. Please explain whether South Kentucky considered what the financial implications of such an event might be on South Kentucky and the remaining owner-members. Please include with the explanation whether South Kentucky should expect to pay an increased pro-rata share of any resulting financial obligations incurred as a result of such an event.

9. Please refer to Exhibit 6 of the Application, the Collateral Annex to the Agreement including Paragraph 10. Please provide the following information concerning the Party A Collateral Threshold:

a. Explain why "Threshold Amounts" were established for calendar years 2017 and 2018 when the transaction is not to begin until April 2019.

b. Please state the formulas for the calculation of the Times Interest Earned Ratio ("TIER") and the Debt Service Coverage Ratio referenced under "Credit Event".

c. Explain the significance of a reduction of 13,400 in South Kentucky members as referenced under "Regulatory Event". Also, please explain how this level was determined.

10. Please refer to Exhibit 7 of the Application, the Firm Physical Energy Confirmation, Section 12 – PJM Arrangements and Settlements. Please provide the following information concerning South Kentucky seeking membership in the PJM as a Market Participant:

a. Describe the status of South Kentucky's application to become a Market Participant in PJM and whether it intends to be a signatory to PJM's Reliability Assurance Agreement, Operating Agreement, and Open Access Transmission Tariff.

b. When does South Kentucky expect a final decision on its application?

c. Describe the status of South Kentucky's filing with PJM of a Declaration of Authority.

11. Please refer to Exhibit 7 of the Application, the Firm Physical Energy Confirmation, Section 14 – Conditions Subsequent. Please describe the status of the request to the Rural Utilities Service seeking approval or consent to the terms of the Agreement.

12. Please refer to Exhibit 16 of the Application, the Direct Testimony of Mr. Dennis Holt, page 11. South Kentucky has contracted with Morgan Stanley for 58 MW of firm energy for 20

years beginning June 1, 2019 and a financial capacity hedge of 68 MW for 18 years beginning June 1, 2021.

a. Please explain the purpose and benefits to South Kentucky of the 18-year financial capacity hedge instrument.

b. Please describe the risks South Kentucky could be exposed to during the two-year period between June 1, 2019 and June 1, 2021 when the financial capacity hedge instrument is not in effect.

13. Please refer to Exhibit 17 of the Application, the Direct Testimony of Mrs. Michelle Herrman ("Herrman Testimony"). Please provide the five financial ratios shown on page 4 of the Herrman Testimony for calendar years 2013 through 2017. In addition, please provide the TIER excluding generating and transmission capital credits for calendar years 2013 through 2017.

14. Please refer to Exhibit 17 of the Application, the Herrman Testimony, page 8, lines 12 through 18.

a. Please explain why Mrs. Herrman cites the historical cost per MWH from 2014 to 2016 when on page 6 the historical cost per MWH is provided from 2010 through 2017.

b. On page 6 of the Herrman Testimony, it is stated that the historical costs include fuel and environmental costs. However, at lines 16 and 17 of page 8, it is stated that the projected 2020 contract year cost excludes environmental surcharge and fuel adjustment costs. Please explain why it is reasonable to compare the projected cost in the 2020 contract year with the historical cost when one includes environmental and fuel costs and the other does not.

c. Please provide the historical cost per MWH from 2010 through 2017 excluding the fuel adjustment costs and the environmental surcharge.

15. Please refer to Exhibit 17 of the Application, the Herrman Testimony, page 11, lines 12 through 21. Concerning securing either a master line of credit or a line of credit from which a subordinate letter of credit could be drawn:

a. Please provide the estimated annual cost of securing and maintaining a master line of credit at the levels required by the Agreement.

b. Please provide the estimated annual cost of securing and maintaining a line of credit from which a subordinate letter of credit could be drawn at the levels required by the Agreement.

c. Please describe whether the estimated annual costs of either line of credit option were incorporated into South Kentucky's net present value analysis of the proposed Agreement. If not included, please explain why the estimated annual costs were excluded.

16. Please refer to Exhibit 17 of the Application, the Herrman Testimony, page 13, lines 17 through 23.

a. Please describe any analyses performed by South Kentucky that supports its assumptions that the pass-through costs or credits for the fuel adjustment clause ("FAC") and the environmental surcharge pass-through costs would be reduced.

b. If no analyses were performed, please explain the basis for South Kentucky's belief these costs would be reduced.

c. Please describe when South Kentucky believes the changes in the FAC and environmental surcharge related to the proposed power purchase would be reflected in the bills 1) South Kentucky receives from EKPC and 2) customers' bills received from South Kentucky.

17. For the following hypothetical FAC example, please assume the following values:

- The current month fuel costs, F(m), is $25,000,000.
- The current month energy sales, S(m), is 1,000,000,000 kWh.
- The fuel costs incorporated into base energy rates is $0.02776 / kWh.

- The reduction in kWh sales associated with the South Kentucky 58 MW power purchase is 40,000,000 kWh.

a. Would South Kentucky agree that the current average fuel cost in this example, F(m) / S(m), would be $0.02500 / kWh and the FAC billing factor for the month would be ($0.00276) / kWh?

b. Would South Kentucky agree that after taking into consideration the reduction in kWh sales due to the South Kentucky power purchase, in this example F(m) / S(m) would be $0.02604 / kWh and the FAC billing factor would be ($0.00172) / kWh?

c. Would South Kentucky agree that, all other things being equal, a reduction in the FAC billing factor from ($0.00276) / kWh to ($0.00172) / kWh actually reflects an increase in the power bill from EKPC, as the FAC billing factor credit has been reduced?

d. Would South Kentucky agree that if EKPC's energy kWh sales to South Kentucky were reduced, there would likely be a related reduction in the variable components of the monthly fuel costs?

e. Would South Kentucky agree that to achieve the average fuel costs originally determined in this example of $0.02500 / kWh, the monthly fuel costs would need to be reduced by $1,000,000 [($25,000,000 - $1,000,000) / (1,000,000,000 kWh – 40,000,000 kWh) = $0.02500 / kWh]?

f. Based on this hypothetical, would South Kentucky agree that if the reduction in monthly fuel costs associated with the lower kWh sales were less than $1,000,000, the adjusted average monthly fuel costs would be higher and consequently the FAC billing factor credit would be lower than the original values determined in this example?

g. Based on this hypothetical, would South Kentucky agree that if the reduction in monthly fuel costs associated with the lower kWh sales were more than $1,000,000, the adjusted average monthly fuel costs would be lower and consequently the FAC billing factor credit would be higher than the original values determined in this example?

18. For the following hypothetical environmental surcharge example, please assume the following values:

- The current month surcharge revenue requirement (return on rate base, operating expenses, and true-up adjustment), E(m), is $9,500,000.
- The current 12-month average Member revenues, R(m), is $57,000,000.
- The monthly reduction in Member revenues (base rates and FAC) associated with the South Kentucky 58 MW power purchase is $2,000,000.

a. Would South Kentucky agree that the current environmental surcharge factor in this example, E(m) / R(m), would be 16.67%?

b. Would South Kentucky agree that after taking into consideration the reduction in average Member revenues due to the South Kentucky power purchase, in this example E(m) / R(m) would be 17.27%?

c. Would South Kentucky agree that, all other things being equal, a reduction in the average monthly Member revenues results in an increase in the environmental surcharge included in the power bill from EKPC?

d. Would South Kentucky agree that if EKPC's energy kWh sales to South Kentucky were reduced, there would likely be a related reduction in the variable components of the monthly operating costs recovered through the environmental surcharge revenue requirement?

e. Would South Kentucky agree that to achieve the surcharge factor originally determined in this example of 16.67%, the monthly surcharge revenue requirement would need to be reduced by approximately $325,000 [($9,500,000 - $325,000) / ($57,000,000 – $2,000,000) = 16.68%]?

f. Based on this hypothetical, would South Kentucky agree that if the reduction in the monthly surcharge revenue requirement associated with the lower kWh sales were less than $325,000, the adjusted surcharge factor would be higher than the original values determined in this example?

g. Based on this hypothetical, would South Kentucky agree that if the reduction in the monthly surcharge revenue requirement associated with the lower kWh sales were more than $325,000, the adjusted surcharge factor would be lower than the original values determined in this example?

19. Please refer to Exhibit 18 of the Application, the Direct Testimony of Carter Babbit ("Babbit Testimony"), page 2. Please provide the following information concerning EnerVision:

a. When was EnerVision founded?

b. Is EnerVision a subsidiary or affiliated with another corporate entity?

c. Since its founding, has EnerVision been affiliated with any energy providers?

d. Is EnerVision in any way affiliated with Morgan Stanley?

20. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 5. Please identify the distribution cooperatives in Kentucky that EnerVision has worked with.

21. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 7, line 19 through page 8, line 9.

a. Please indicate whether the EKPC base case as described in this portion of the Babbit Testimony was consistently utilized in the evaluation of all proposals.

b. Please explain why the EKPC base case was developed utilizing EKPC's Rate E-2, considering the fact that South Kentucky is provided service under EKPC's Rates B, C, and E.

Please include with the explanation a discussion of why the EKPC base case did not reflect Rates B and C.

c. Please explain why it was reasonable to exclude fuel and environmental surcharge costs from the South Kentucky estimated power costs. Also, please explain whether fuel costs reference the FAC factor or all fuel costs (base fuel in the energy rate plus the FAC factor).

22. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 12. Please explain how it was determined that the cost of services provided by EKPC acting as agent was at a rate of $0.80 / MWh. Please include with the explanation the source of this rate quote.

23. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 13.

a. Please explain the reason(s) for the 18 percent reserve requirement as it relates to PJM's zonal determination of a load serving entity's required unforced capacity obligation.

b. Please identify the source of the 18 percent reserve requirement.

c. Please explain how 18 percent was determined to be the appropriate reserve requirement for the financial capacity hedge.

d. Please explain whether EKPC should carve out the 68 MW of reserve capacity in all future PJM Base Residual Auctions ("BRA"), including the upcoming 2021-2022 BRA in May of 2018.

e. Please explain whether the acquisition of any excess reserve capacity will be resold for gain or loss in any subsequent BRA's or incremental auctions and whether the proceeds (gains or losses) are reflected in the financial assumptions for entering into the proposed transaction.

f. Please explain whether the purchase of reserve capacity in excess of South Kentucky's 15 percent limitation should have been considered in the amount procured.

g. South Kentucky has acknowledged that its 15 percent limit under Amendment 3 and the 2015 Memorandum of Understanding is 58.5 MW. Please explain why contracting for a financial capacity hedge of 68 MW is not in violation of the 58.5 MW limitation.

24. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 15.

a. While Morgan Stanley offered a fixed firm energy price product for 58 MW, please confirm that South Kentucky is subject to potential additional costs related to changes in environmental law, as disclosed in Exhibit 7 of the Application, the Firm Physical Energy Confirmation, Section 17 – Environmental Change in Law.

b. While Morgan Stanley offered a financial capacity hedge for 68 MW at a set price, please confirm that South Kentucky and Morgan Stanley are subject to potential additional costs related to the buyer's fixed amount, the seller's floating amount, and changes in environmental law, as disclosed in Exhibit 8 of the Application, the Financial Capacity Confirmation, Sections 12 through 15 (Buyer's Fixed Amount, Seller's Floating Amount, Calculations, Calculation Period, and Calculation Agent) and 20 – Environmental Change in Law.

c. Please explain how, if at all, these potential additional costs were incorporated into the net present value analysis of the Morgan Stanley proposal for the 58 MW.

25. Please refer to Exhibit 18 of the Application, the Babbit Testimony, page 18, lines 2 through 4. Please explain the basis for the conclusion that "were this load to remain in EKPC it would be subject to similar capacity price variability due to EKPC's participation in the PJM capacity market." Also, please explain whether Mr. Babbit was aware that EKPC has no rate mechanism in place that allows for the current recovery of market capacity variability but rather recovers those costs through base rates, which can only be changed through a base rate case proceeding.

26. Please refer to Exhibit 18 of the Application, the Babbit Testimony, Exhibit CB-9.

a. Please identify on the exhibit which color line represents the EKPC base case and which line represents the final Morgan Stanley proposal for the 58 MW.

b. Please provide all spreadsheets, calculations, assumptions, and other documentation that support the information presented in graphic form on Exhibit CB-9. Please include spreadsheets in Excel format with all formulas intact and unprotected. The spreadsheets, calculations, assumptions, and other documentation are only requested for the EKPC base case and the Morgan Stanley proposal for the 58 MW.

27. In the Herrman Testimony, page 8, lines 13 through 16, Mrs. Herrman states that EnerVision calculated a projected 2020 contract year cost for power purchases made from both EKPC and Morgan Stanley. Please provide all spreadsheets, calculations, and assumptions utilized to determine the projected 2020 contract year cost.

28. Please provide the following costs associated with the proposed Morgan Stanley transaction and explain how these costs were incorporated into the net present value analysis of the proposal. If the cost was not included in the net present value analysis, please explain why it was not included.

a. The annual cost of being a PJM Market Participant.

b. The annual cost of services provided by EnerVision.

c. The annual cost of transmission provided by EKPC.

d. The annual cost of additional personnel hired by South Kentucky to administer the Morgan Stanley transaction and the requirements of being a PJM Market Participant.

29. Please explain if South Kentucky or EnerVision incorporated into its analyses the impacts the proposed Morgan Stanley transaction would have on the allocation of EKPC annual margins

to the 16 owner-members. If this was not considered, please explain why it was not considered in the analyses.

30. Please describe how South Kentucky and EnerVision incorporated the following items into their analysis of the proposed Morgan Stanley transaction. If the item was not included in the analysis, please explain why it was excluded.

a. Cost shifts in the FAC and the potential that FAC billing factors could be larger or smaller than those currently experienced.

b. Cost shifts in the environmental surcharge and the potential that environmental surcharge factors could be larger or smaller than those currently experienced.

c. Shifts of costs recovered through demand and energy rates and the likelihood that some level of these costs will be allocated back to South Kentucky during a base rate case proceeding.

31. In a previous EKPC FAC six-month review case, the Commission concluded that it was important to maintain the limitation for recovery through the FAC of "non-economy energy purchases" in order to incentivize utilities to keep outages to a minimum and to have sufficient capacity to meet load.[2]

a. In light of this need to have sufficient capacity to meet load, please explain why South Kentucky should be permitted to purchase power from an alternative source that is not supported by generating assets in Kentucky.

b. Does South Kentucky believe that EKPC should no longer have to build assets to have sufficient capacity to meet load?

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[2] *See In the Matter of An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2013 Through April 30, 2014*, Order, Case No. 2014-00226, p. 8 (Ky. P.S.C., Jan. 30, 2015).

32. Over the years, South Kentucky, along with the other 15 owner-members, voted to build or purchase all of EKPC's generating assets. Please explain why South Kentucky now believes it should be allowed to avoid the costs associated with these generating assets.

33. Assume for purposes of the following questions that the Commission approves the proposed Morgan Stanley transaction. In January and February of 2021 Morgan Stanley is unable to deliver any of the power covered by the transaction due to the unavailability of generating resources and/or significant transmission constraints within PJM that prohibit delivery to the EKPC delivery point.

a. Please describe how the Morgan Stanley transaction would address and satisfy this event.

b. Please describe South Kentucky's contingency plans to deal with this shortage of capacity and energy.

c. Please explain whether South Kentucky has assumed it would be able to secure the replacement capacity and energy from EKPC. Include with this explanation the basis for South Kentucky's assumption that EKPC would be the back-up provider.

d. While the terms of the Morgan Stanley transaction may provide monetary compensation to South Kentucky for the failure to delivery contracted capacity and energy, please describe how it believes its customers would react to such a situation.

34. Please explain whether South Kentucky believes the proposed Morgan Stanley transaction will provide the same degree of reliability as provided by EKPC. Please include with this explanation the basis for South Kentucky's belief concerning reliability from the proposed Morgan Stanley transaction.

35. South Kentucky is seeking approval of a transaction that would result in it claiming 58 MW of its 58.5 MW maximum permissible demand reduction under Amendment 3 of the Wholesale Power Contract and the 2015 Memorandum of Understanding. This is approximately a 15 percent demand reduction compared to the 5 percent demand reduction established for each owner-member.

a. Please describe whether South Kentucky considered what the impact on the other owner-members would be from it taking nearly the maximum permissible demand reduction at a 100 percent load factor.

b. Please describe whether South Kentucky considered the possibility that at this time other owner-members would seek to secure more than the base 5 percent demand reduction as well, thus exhausting the total limitation on demand reductions before all owner-members had the chance to exercise this option.

c. Please indicate whether South Kentucky considered that multiple owner-member requests for maximum permissible demand reductions would make it difficult for EKPC to mitigate the cost impacts on the owner-members.

d. Please explain how South Kentucky's request for the maximum permissible demand reduction is consistent with the Cooperative principle "Cooperation between Cooperatives".

36. The proposed Morgan Stanley transaction will result in the shifting of costs from South Kentucky to the other owner-members. There will be immediate shifts in the FAC and environmental surcharge, while costs recovered by demand and energy rates will be addressed in a future base rate case proceeding.

a. Please explain whether South Kentucky understood that EKPC might have to file a base rate case application if it could not mitigate the costs that were shifted from South Kentucky to the other owner-members. Please include with this explanation whether South Kentucky incorporated the potential of a base rate increase in its analysis of the benefits of the proposed Morgan Stanley transaction.

b. Please describe whether South Kentucky considered that EKPC's cost mitigation efforts might require a premature review of the economic viability of its baseload (coal) generating assets. Also, please include a discussion of whether there potentially could be system reliability concerns resulting from such a review. In addition, please state what South Kentucky's position would be regarding cost causation and sharing with the owner-members if PJM should require transmission upgrades to offset the impact of any early plant closures as a result of this transaction.

c. Please describe whether South Kentucky considered that EKPC's cost mitigation efforts might result in stranded assets that will need to be recovered from owner-members.

37. Mrs. Herrman states on page 14 of her testimony that the increase in margins expected from the proposed Morgan Stanley transaction would allow South Kentucky to delay a general rate adjustment under current predictions by at least four years. Without this transaction, South Kentucky has stated it would require a rate adjustment during 2019. EKPC's last base rate case adjustment was effective in January 2011, while its FAC and environmental surcharge adjust monthly.

a. Since EKPC's base rates have not increased since 2011, please explain what factors were causing South Kentucky to consider a base rate increase during 2019. Please include in this explanation whether long-term interest rates, line losses, load factors, and South Kentucky investments were contributing factors to the need for a base rate adjustment.

b. Please explain whether the acquisition of a new headquarters building had an impact on the need for a base rate adjustment. Please include with the explanation whether the acquisition of the new headquarters building is a significant factor.

c. Please explain how the proposed Morgan Stanley transaction was going to delay a base rate adjustment by at least four years, given that the transaction reflects only 15 percent of South Kentucky's load.

38. Please explain whether South Kentucky believes their customers want lower rates regardless of the impacts on system reliability and the financial implications to all owner-members.

39. Please explain how South Kentucky planned on accounting for the proposed Morgan Stanley transaction. Please include with the explanation a discussion of whether South Kentucky planned to track the costs and savings associated with the proposed transaction so it can demonstrate the benefits.

40. The proposed Morgan Stanley transaction involves complex financial agreements between South Kentucky and Morgan Stanley. Over the next 20 years it would seem possible that market conditions could change that would impact the overall financial benefits currently anticipated from the proposed transaction. Please explain what contingencies South Kentucky has planned for in the event market conditions do change and the proposed transaction no longer provides a financial benefit to South Kentucky.

41. Concerning the proposed Morgan Stanley transaction:

a. Please explain why South Kentucky choose to hedge its capacity price risk with a financially settled capacity contract.

b. Please confirm the South Kentucky plans to purchase physical capacity in the PJM market.

c. Please explain why South Kentucky choose a financial transaction for capacity and a physical transaction for energy.

d. Does South Kentucky plan to financially settle the energy purchase from Morgan Stanley and purchase physical energy from PJM?

e. Does South Kentucky expect to recover payments to Morgan Stanley for the financial settlement of the capacity transaction through rates to its customers?