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March 27, 2018

RECEIVED

MAR 27 2018

PUBLIC SERVICE  
COMMISSION

*Via Hand-Delivery*

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 Supplemental 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,

RANDELL ROACH & ROYSE PLLC



David T. Royse

Enclosures

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

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

**EAST KENTUCKY POWER COOPERATIVE, INC.  
SUPPLEMENTAL 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 March 20, 2018, is requested to file responses to the following requests for information by April 5, 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 forwarded electronically on this 27<sup>th</sup> day of March, 2018, addressed to the following:

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*Counsel for East Kentucky Power Cooperative, Inc.*

1. Please refer to South Kentucky's response to the Attorney General's First Request for Information ("AG's First"), Item 2 and South Kentucky's response to EKPC's First Request for Information ("EKPC's First"), Item 40.

a. Please identify the specific EKPC 20-year financial forecast referenced in these responses.

b. Please provide a copy of the referenced financial forecast.

2. Please refer to South Kentucky's response to the AG's First, Item 10. In discussing early termination of the Master Power Purchase and Sale Agreement ("Agreement"), South Kentucky states that early termination can only occur if one of the parties has defaulted and not cured the default. The response further states, "There is no other opportunity for a party to terminate the agreement early."

a. If the Commission does not approve the Agreement and appeals of the Commission's decision are unsuccessful, please explain whether the failure to secure approval constitutes a default by one of the parties.

b. Please explain whether the Agreement includes any provisions that permit the termination of the Agreement in the event the Commission does not approve the Agreement and appeals of the Commission's decision are unsuccessful. Please include citations to the appropriate provisions of the Agreement and indicate what costs might be incurred by South Kentucky because of a termination.

3. Please refer to South Kentucky's response to the Commission Staff's First Request for Information ("Staff's First"), Items 3 and 15. In the response to Item 3, South Kentucky states that EKPC is "requiring" South Kentucky to become a member of the PJM Interconnection LLC ("PJM"). In the response to Item 15, South Kentucky repeatedly states that it was "directed by



EKPC” to become a member of PJM. However, Exhibit 7 of the Application, the Firm Physical Energy Confirmation letter, paragraph 12, clearly states that South Kentucky will promptly apply for and diligently pursue membership in PJM as a Market Participant and will promptly enter into and file with PJM a Declaration of Authority. Please confirm that it is provisions of the Morgan Stanley transaction documents, which EKPC is not a party to nor was involved in the negotiation of, that is requiring South Kentucky to become a member of PJM.

4. Please refer to South Kentucky’s response to the Staff’s First, Item 7b.

a. Please provide a listing of all the PJM obligations South Kentucky is assuming will be addressed in the anticipated agency agreement with EKPC.

b. Are there any PJM obligations and costs related to South Kentucky becoming a member of PJM that would not be included in the anticipated agency agreement with EKPC? If so, please provide a listing of those obligations.

5. Please refer to South Kentucky’s response to the Staff’s First, Item 8.

a. Please indicate whether South Kentucky consulted or informed the other owner-members prior to November 28, 2017 that it would be exercising its contractual right to reduce purchases of electric power from EKPC and describe any such consultations or sharing of information.

b. Please explain whether South Kentucky considered consulting or informing the other owner-members prior to filing the November 28, 2017 notice, since the exercising of its contractual right could have impacted the other owner-members’ contractual rights.

6. Please refer to South Kentucky’s response to the Staff’s First, Item 16. In the response to Staff’s First, Item 16b, South Kentucky lists four minimum items it believes should be addressed in the agency agreement with EKPC.

a. Since this response only covered the minimum items expected in the agency agreement with EKPC, please provide a full listing of the items South Kentucky anticipates would be included in the agency agreement.

b. South Kentucky has indicated it expects the agency agreement will be finalized prior to the end of 2018. Please provide the timetable schedule South Kentucky intends to follow to negotiate the agency agreement.

7. Please provide a milestone checklist that details all the actions that must be accomplished to complete the proposed Morgan Stanley transaction. The checklist should begin on November 28, 2017 and run through June 1, 2019. Please include the status for each milestone.

8. Please refer to South Kentucky's response to the Cooperatives' First, Item 3, DC Attachment 3 (Public version), e-mail response from Michelle Herrman to George Bishara dated January 18, 2018 (PDF pages 3 and 4 of 21) and Item 4, DC Attachment 4 (Public version), Amendment 3/MOU RFP Process Update dated December 19, 2017, slide 8 (PDF page 36 of 118). In the e-mails contained in Attachment 3, the Rural Utilities Service ("RUS") was raising questions as to whether the proposed Morgan Stanley transaction included any embedded derivatives. South Kentucky responded that its auditor had confirmed there were no embedded derivatives. However, in the December 19, 2017 presentation, slide 8 states that the proposed financial capacity agreement "is truly a financial hedge".

a. Please provide copies of any correspondence between South Kentucky and its auditor discussing the subject of derivatives.

b. Please explain how South Kentucky and/or its auditor determined there were no embedded derivatives in the proposed Morgan Stanley transaction, when it was acknowledged by

EnerVision, Inc. (“EnerVision”) in its December 19, 2017 presentation that the financial capacity agreement was a financial hedge.

c. If South Kentucky is aware, what additional accounting requirements would RUS insist on if it were determined that the financial capacity agreement is an embedded derivative?

9. Please refer to South Kentucky’s response to the Cooperatives’ First, Item 6a. In this response, South Kentucky contends that EKPC’s CEO provided it with assurances at two informal meetings that EKPC could mitigate the impacts of the Alternate Source designation.

a. Please provide citations to South Kentucky’s Application or responses to the first requests for information where it has disclosed the capacity and energy contemplated to be provided by the independent power producer which contacted South Kentucky in the spring of 2017.

b. Provide copies of the proposal submitted by the independent power producer when it contacted South Kentucky in the spring of 2017. Please also provide any additional proposals or amendments provided by the independent power producer up to the response date for the Request for Proposals (“RFP”).

c. Please indicate whether South Kentucky knew it would be considering an Alternate Source that would provide 58 MW at a 100 percent load factor prior to the August 7 and 21, 2017 meetings.

d. Please explain why the response to Item 6 makes no mention of either the capacity or load factor discussed during the August 7 and 21, 2017 meetings.

e. Please provide any written documentation establishing that South Kentucky informed EKPC’s CEO on either August 7 or 21, 2017 that the capacity would be 58 MW at a 100 percent load factor. In addition, please indicate who was present at both the August 7 and 21, 2017

meetings and state what was specifically communicated to EKPC at each of those meetings concerning the size of the load and load factor associated with the Alternate Source designation.

10. Please refer to South Kentucky's response to the Cooperatives' First, Item 6b and to the December 29, 2017 e-mail from EKPC, with two-page attachment, which was provided in the response to the Cooperatives' First, Item 4, DC Attachment 4 (Public version) (PDF pages 107 through 109 of 118). In the response to Item 6b, South Kentucky states that EKPC sent an e-mail "noting that they could mitigate the impact of the Alternate Source designation." However, the last sentence of the December 29, 2017 e-mail states, "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." (emphasis added)

a. Please explain how South Kentucky could conclude that EKPC had stated it could fully mitigate the Alternate Source designation when the December 29, 2017 e-mail clearly states EKPC would do everything possible to mitigate.

b. Would South Kentucky agree that the two-page attachment to the December 29, 2017 e-mail describes various possibilities and strategies to mitigate the Alternate Source designation, but at no time guarantees mitigation would be achieved?

c. Please refer to page 2 of the two-page attachment to the December 29, 2017 e-mail, second full paragraph. While this paragraph does discuss the possible successful mitigation of the Alternate Source designation, would South Kentucky agree that the situation described in this paragraph is contingent upon EKPC "bouncing back" to weather-normal conditions and some real load growth?

d. Would South Kentucky agree that, should the mitigation efforts undertaken by EKPC fail to fully offset the load loss created by the Alternate Source designation, there would be

cost shifts to the owner-members and those cost shifts could show up in the fuel adjustment clause, the environmental surcharge, year-end margins, and possibly a base rate increase?

e. Would South Kentucky agree that certain costs that are recovered by EKPC through its demand and energy rates, and therefore might be avoided by South Kentucky's purchase from an alternate supplier of capacity and energy, might appropriately be assigned to South Kentucky in an EKPC base rate case and therefore such costs should be excluded from South Kentucky's savings estimates? Please explain the response.

11. Please refer to South Kentucky's response to the Cooperatives' First, Item 29. In the response South Kentucky states, "By exercising its right to obtain energy supplied from an Alternate Source, South Kentucky seeks to reduce the cost of providing electric service to its residential, commercial and industrial customers – customers that are not otherwise receiving significant rate reductions under EKPC's Rates B and C." If the purchase of 58 MW from an Alternate Source is providing significant savings in power and energy costs to South Kentucky, please explain why South Kentucky believes it is fair, just, and reasonable that only its customers served under EKPC's Rate E should receive the benefits from the purchase.

12. Please refer to South Kentucky's response to the Cooperatives' First, Item 35, and the response to the Staff's First, Item 2b. Both responses provide a listing of risks associated with the transaction that South Kentucky identified. Please explain why transmission issues, both availability and cost, were not considered as part of the risk evaluation.

13. Please refer to South Kentucky's response to the Cooperatives' First, DC Attachment 4 (Sheet 2) – Confidential.

a. Please explain what is being represented by this spreadsheet. Also, please indicate whether South Kentucky, EnerVision, Morgan Stanley, or some other entity prepared the spreadsheet.

b. Please explain why there appears to be two Morgan Stanley accounts listed on the tabs for January 2, 3, 6, and 7, 2020.

c. Please explain why the actions shown on the spreadsheet tabs do not include Saturday and Sunday.

14. Please refer to South Kentucky's response to the Cooperatives' First, DC Attachment 4 (Sheet 4) – Confidential. This spreadsheet appears to be an example of how the financial capacity hedge instrument would be settled.

a. Please confirm that is the purpose of this spreadsheet.

b. Please indicate whether South Kentucky, EnerVision, Morgan Stanley, or some other entity prepared the spreadsheet.

c. Please indicate the period covered by the settlement example – is it daily, monthly, or yearly? Also, please indicate whether the financial capacity hedge instrument, Application Exhibit 8, requires a daily, monthly, or yearly settlement.

d. Looking at this example, it would appear that in order for Morgan Stanley to make money on the financial capacity hedge instrument, Morgan Stanley is assuming that during the 18-year term of the instrument the final capacity price for each time period will more often be below the fixed capacity price stated in the instrument than above the fixed capacity price. Please indicate if this is South Kentucky's understanding of the arrangement. If not, please explain South Kentucky's understanding of how Morgan Stanley is making money on the financial capacity hedge instrument.

15. Please refer to South Kentucky's response to the Cooperatives' First, DC Attachment 3 (Public version), the Summary of the Wholesale Power Contract with Morgan Stanley under Amendment #3 of the All Requirements Wholesale Power Contract (PDF pages 15 and 16 of 21). Please indicate whether South Kentucky agrees with the following statements concerning the Amendment 3 allotments and Notices.

a. Based on data through October 2017, would South Kentucky agree that the average of EKPC's three previous years' coincident peaks totals 2,979.8 MW?

b. Would South Kentucky agree that 2.5 percent of this average of the coincident peaks would equal 74.495 MW?

c. Would South Kentucky agree that under the provisions of paragraph 3(A)(iv) of the MOU, if the aggregate amount of all owner-members' loads being served with Alternate Sources (including the load proposed to be served by the owner-member's new Alternate Source) would be equal to or greater than 2.5 percent, the owner-member's aggregate demand reduction from Alternate Sources (including the demand reduction from the proposed new Alternate Source) may not exceed 5 percent of the rolling average of the owner-member's coincident peak demand?

d. Would South Kentucky agree that the total MWs of the noticed projects, including South Kentucky's November 2017 notice, is 69.2 MW?

e. Based on the data through October 2017, would South Kentucky agree that as soon as any subsequent Alternate Source notices totaled 5.295 MW, the 2.5 percent threshold would be reached and no owner-member could seek a demand reduction of greater than 5 percent of the rolling average of the owner-member's coincident peak demand?

f. Based on the data through October 2017 and the 2.5 percent threshold established in the MOU, would South Kentucky agree that after its Alternate Source notice for 58 MW, no

other owner-member would be able to request an Alternate Source reduction that equaled 15 percent of the owner-member's rolling average of its coincident peak demand?

16. Please refer to South Kentucky's response to the Cooperatives' First, DC Attachment 4 (Public version), the Amendment 3 Allotments based on data through January 2018 (PDF page 118 of 118). Would South Kentucky agree that the MOU's 2.5 percent threshold based on the January 2018 data would be 79.2275 MW (3,169.1 MW x 2.5%)?

17. Please refer to the Application, Exhibit 19, Attachment A, the Restated Mortgage and Security Agreement dated November 1, 2016, between South Kentucky, RUS, the National Rural Utilities Cooperative Finance Corporation ("CFC"), and CoBank, ACB ("the Mortgage"). Given the provisions stated in the Recitals section and the Granting Clause First, section C(ii) of the Mortgage, please provide the following information:

a. Does the Mortgage require that South Kentucky grant to RUS, CFC, and CoBank a security interest and lien on the proposed Morgan Stanley transaction?

b. If yes, did South Kentucky make Morgan Stanley aware that such a security interest and lien would be granted?

c. Does granting to RUS, CFC, and CoBank a security interest and lien on the proposed Morgan Stanley transaction in any way conflict with the provisions of the Agreement, the Collateral Annex to the Agreement, the Firm Physical Energy Confirmation, and the Financial Capacity Confirmation? Please include an explanation of any conflicts.

18. Please refer to South Kentucky's responses to EKPC's First, Items 1 and 2. South Kentucky retained EnerVision to assist in its investigation and analysis of proposals that resulted in the proposed Morgan Stanley transaction. EnerVision has prepared numerous analyses of options and the net present value analysis that South Kentucky contends supports the approval of



the proposed Morgan Stanley transaction. Consequently, questions concerning the selection of EnerVision, when it started providing services to South Kentucky, and whether EnerVision will continue to provide services in conjunction with the proposed Morgan Stanley transaction are relevant and germane to this proceeding. Please provide the originally requested information in Items 1 and 2.

19. Please refer to South Kentucky's responses to EKPC's First, Items 6 through 8. In the responses it has been indicated that a particular provision of documents included in the Application are not applicable to the proposed Morgan Stanley transaction.

a. Please prepare a listing of each provision or section of the documents provided in the Application as Exhibits 5, 6, 7, and 8 which is not applicable to the proposed Morgan Stanley transaction.

b. Please explain why provisions or sections of the documents provided in these Application exhibits were not clearly marked as not applicable.

20. Please refer to South Kentucky's response to EKPC's First, Item 8. South Kentucky has indicated that the Alternate Source is not tied to, or contingent upon, any specific generation units or that any specific generation units be operating or operational.

a. Please explain whether Morgan Stanley will physically deliver energy to the EKPC Residual Aggregate Zone or will Morgan Stanley and South Kentucky financially settle at the EKPC Residual Aggregate Zone.

b. Based on the response to Item 8e, please indicate if South Kentucky understands that should Morgan Stanley not deliver at any time that South Kentucky would be subject to the real time cost of energy from PJM.

21. Please refer to South Kentucky's response to EKPC's First, Item 9c. South Kentucky was asked to explain the significance of a reduction of 13,400 in South Kentucky members as referenced under "Regulatory Event" in the Collateral Annex to the Agreement and to also explain how this level was determined. The response that this item was added at the request of Morgan Stanley and agreed to by South Kentucky is not responsive to the request. Please provide the originally requested information.

22. Please refer to South Kentucky's response to EKPC's First, Item 15. Concerning a master letter of credit or subordinate letters of credit:

a. Please provide the expected dollar amount of any master letter of credit or subordinate letters of credit South Kentucky anticipates needing in conjunction with the proposed Morgan Stanley transaction.

b. Please provide the total expected annual cost in dollars of any master letter of credit or subordinate letters of credit South Kentucky anticipates needing in conjunction with the proposed Morgan Stanley transaction.

c. If South Kentucky has not determined the expected dollar amount of any master letter of credit or subordinate letters of credit it would need in conjunction with this transaction, please explain why this determination has not been made.

23. Please refer to South Kentucky's response to EKPC's First, Item 21c. The request asked why it was reasonable to exclude fuel and environmental surcharge costs from the South Kentucky estimated power costs. It also asked for an indication of whether fuel costs reference the fuel adjustment clause ("FAC") factor or all fuel costs – base fuel in the energy rate plus the FAC factor. The response failed to address the second part of the request. Please provide the originally requested information.

24. Please refer to South Kentucky's response to EKPC's First, Item 24a. In its response to EKPC's First, Item 8, South Kentucky has stated that the Morgan Stanley energy purchase is not tied to a specific generating unit.

a. Since there is no unit to incur environmental expenses, please explain why there is a need for Section 17 – Environmental Change in Law – in the Firm Physical Energy Confirmation.

b. Please explain whether Morgan Stanley could in the future identify a specific generating unit providing the energy and then apply additional charges under the provisions of Section 17.

25. Please refer to South Kentucky's response to EKPC's First, Item 26 and EKPC Attachment 26 (Confidential version). Please provide the basis for each of the following escalation factors included in the net present value ("NPV") analysis. Include all supporting workpapers, spreadsheets, assumptions, and other relevant documentation.

a. 20 Year Compare tab, Column E, Rows 10, 18, 19, 20, and 21.

b. PJM Summary tab, Column S, Rows 4 through 13.

c. Adders tab, Columns J through M, Row 5.

26. Please refer to South Kentucky's response to EKPC's First, Item 26 and EKPC Attachment 26 (Confidential version).

a. On the 20 Year Compare tab, please provide the basis for the discount rate used in the NPV analysis. Include all supporting workpapers, spreadsheets, assumptions, and other relevant documentation.

b. On the PJM Summary tab, please provide the source documentation for the gas prices in the model, as shown in Columns U through AB, Row 22. Include all supporting

workpapers, spreadsheets, and assumptions utilized in the determination of the gas prices as shown.

27. Please refer to South Kentucky's response to EKPC's First, Item 26 and EKPC Attachment 26 (Confidential version).

a. Refer to Column E, Rows 9 and 16 on the 20 Year Compare tab. Please explain why the test-year load on Row 9 and the EKPC MWH on Row 16 were not escalated to reflect any load growth in energy during the analysis period. In addition, would South Kentucky agree that while recognizing load growth in energy would not change the results of the NPV analysis, it would more accurately reflect what the average cost per MWH would be, as shown on Row 11 and 33?

b. Refer to Column F, Rows 10, 18, and 19 on the 20 Year Compare tab. Please explain why the cost for the applicable loads and purchases was based on EKPC's Rate E1 when South Kentucky takes service under EKPC's Rate E2.

c. Refer to Column F, Row 20 on the 20 Year Compare tab. Please explain why the calculation of the alternate supply NITS is the product of the alternate supply MWH times a \$/kW-month transmission rate.

d. Refer to Column E, Row 15 on the MSCG-h tab. Please explain why EnerVision assumed that the EKPC Agent Fee would remain fixed for the entire 20-year period. Also, please explain why the EKPC Agent Fee should not be escalated at the same rate as the "Total Cost @ EKPC Rate" as shown on Column E, Row 10 on the 20 Year Compare tab.

e. Refer to Columns H and I, Rows 27 and 28 on the E-Tariff tab. Please explain why EnerVision did not utilize the current version of EKPC's Rate E schedule, which were approved

by the Commission in its August 7, 2017 Order in Case No. 2017-00002<sup>1</sup> and were effective for service rendered on and after September 1, 2017.

f. Concerning EKPC's Rate E schedule on the E-Tariff tab, would South Kentucky agree that these energy rates include a base fuel cost component and that in order to reflect the actual fuel costs at any billing period a FAC factor needs to be included? Please explain the response.

g. Please explain why South Kentucky believes it is appropriate in this NPV analysis to reflect only a base fuel cost component instead of modeling actual fuel costs.

h. Refer to Column R, Rows 4 through 13 on the PJM Summary tab. Please explain why the "basis for estimate" for all the rows were 2016 amounts except for Row 4 – Operating Reserves (Uplift) and Row 8 – Regulation.

i. Refer to Columns Y through AB, Row 8 on the PJM Summary tab. Please explain why the escalation factor for the Regulation cost was based on the changes in gas prices rather than the fixed escalation factor stated on the spreadsheet.

j. Refer to Columns W through AB, Row 9 on the PJM Summary tab. Please explain why EnerVision utilized a "Sch. 1A charged to T customers" charge in 2016 for the Transmission Owner (Schedule 1A) costs instead of EKPC's Ancillary Schedule 1-A rate. Also, please indicate whether EnerVision was aware that the EKPC Ancillary Schedule 1-A rate for the 2017-18 year is \$0.2695 / MWH.

k. Refer to Columns I through M, Row 7 on the Adders tab. Please explain why EnerVision utilized a "PJM T Rev Req'ts & Rate" charge for NITS service instead of EKPC's

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<sup>1</sup> See *In the Matter of An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2014 Through October 31, 2016*, Order, Case No. 2017-00002, (Ky. P.S.C., Aug. 7, 2017).

NITS Rate (PJM Schedule 7). Also, please indicate whether EnerVision was aware that the EKPC NITS Rate for the 2017-18 year is \$2.202 / kW-month.

1. Please indicate if South Kentucky would agree that had the current EKPC Rate E2 rates, the EKPC Ancillary Schedule 1-A rate, and the EKPC NITS Rate had been incorporated into the NPV model, the NPV would have decreased by approximately 18.7 percent.

28. Please provide revised versions of the NPV analysis, incorporating the following revisions. The assumptions detailed in subparts (a) through (f) below should be included in each revised version of the NPV analysis. Include the spreadsheets with all formulas intact and cells unprotected.

a. Incorporate an energy load growth factor of 0.65 percent on Rows 9 and 16 on the 20 Year Compare tab. This escalation is to run from 2021 through 2036.

b. Use EKPC's Rate E2 and the current rates approved on August 7, 2017.

c. Incorporate an average FAC credit adjustment to the Rate E2 energy rates of (\$0.00298) / kWh.

d. Use EKPC's Ancillary Schedule 1-A rate of \$0.2695 / MWH as the starting value in 2017 and escalate as originally modeled.

e. Use the same escalation factor as shown in Column E, Row 10 on the 20 Year Compare tab as the escalation factor for the EKPC Agent Fee shown in Column E, Row 15 on the MSCG-h tab.

f. Use EKPC's NITS Rate of \$2.202 / kW-month times 58,000 kW times 12 months divided by 1,000,000 for the alternate supply NITS cost in 2017 and escalate as directed in subpart (g).

g. Run three versions of the revised NPV analysis reflecting the following annual escalation factors. One version will reflect an escalation factor on the Adder tab and Column E, Row 20 of the 20 Year Compare tab for the alternate supply NITS of 5 percent, one version with an escalation factor of 10 percent, and a final version with an escalation factor of 15 percent.

29. Please refer to South Kentucky's response to EKPC's First, Item 29. Please indicate if South Kentucky agrees that, since the displaced energy from the Morgan Stanley Alternate Source is at a 100 percent load factor, EKPC can sell a 100 percent load factor product priced at its system average energy cost to mitigate the cost shift to other EKPC owner-members.

30. Please refer to South Kentucky's response to EKPC's First, Item 30.

a. Please indicate if Mr. Seelye was retained by South Kentucky prior to the filing of the Application in this proceeding.

b. Please indicate if Mr. Seelye assisted EnerVision and South Kentucky with the analysis of the proposed Morgan Stanley transaction prior to the filing of the Application in this proceeding.

c. Please provide all the analyses performed by Mr. Seelye to support the conclusions in his response that South Kentucky did not anticipate that there would be material or significant cost shifts in the FAC, environmental surcharge, and base rates due to the loss of sales from the Alternate Source transaction. Include all workpapers, spreadsheets, assumptions, and other supporting documentation.

31. Please refer to South Kentucky's response to EKPC's First, Item 35a. Prior to August 7, 2017, please describe and explain what consideration South Kentucky gave to the possible impacts on the other 15 owner-members of EKPC would result from it taking nearly the maximum permissible demand reduction at a 100 percent load factor.

32. Please provide the following information for calendar years 2015, 2016, and 2017:

- a. The total billed demand for Rates B, C, and E combined.
- b. The total billed demand for Rate E only.
- c. The total billed kWh sales for Rates B, C, and E combined.
- d. The total billed kWh sales for Rate E only.
- e. The average load factor for Rates B, C, and E combined.
- f. The average load factor for Rate E only.

33. Please indicate whether South Kentucky knows of any load on its system that operates at a 100 percent load factor. Also, please identify the customer(s).

34. Under the provisions of the proposed Morgan Stanley transaction, South Kentucky would be purchasing energy at 100 percent load factor, although the actual load factor experienced for its Rate E customers is significantly lower than 100 percent.

a. Please indicate if the RFP stated that all offers had to be at a 100 percent load factor or whether proposals with other load factors would be considered. If the RFP required only proposals at 100 percent load factor, please explain why this was a requirement.

b. Could South Kentucky have issued a RFP that sought proposals for energy at a 50 percent load factor? Please explain the response.

c. Based on EnerVision's experience with power markets, please explain which product would be more expensive – a product at 50 percent load factor or one at 100 percent load factor.

d. If South Kentucky had sought and pursued an Alternate Source transaction based on a 50 percent load factor, would South Kentucky agree that while it likely would have paid more



for the purchased energy, there would have been less cost shifting to the other owner-members?  
Please explain the response.

35. Please refer to Exhibits 7, the Firm Physical Energy Confirmation – Section 14, and 8, the Financial Capacity Confirmation – Section 17, of the Application. Both of the referenced sections state that a condition subsequent to the Confirmations is the Commission “has issued a final, non-appealable order approving the Agreement and this Confirmation on or before 5/31/18”.

a. Please indicate if South Kentucky and Morgan Stanley have held any discussions since January 31, 2018 concerning this section of the confirmation documents. Please include a discussion of the nature of any discussions.

b. Please indicate whether South Kentucky has requested an extension of the transaction with Morgan Stanley and if so, provide the details of any extension.

36. Please refer to Exhibit 8 of the Application, the Financial Capacity Confirmation, Section 8 – “Product”. This section states “MSCG does not represent or warrant that this financially-settled Product will satisfy any of SKRECC’s RPM-imposed performance obligations to PJM.” Please also refer to Section 10 – “Contract Quantity”, which indicates the financially-settled contract quantity is 68 MW.

a. Please state whether South Kentucky believes this Product can be used to fulfill its RPM-imposed performance obligations to PJM. If yes, please explain why South Kentucky believes it does.

b. If the answer to subpart (a) is no, please state whether South Kentucky will be executing its needs with a third party or will request EKPC to bid on South Kentucky’s behalf in subsequent Base Residual Auctions (“BRA”) to procure the required PJM RPM obligation of 58 MW plus PJM required reserves.

c. Please explain whether South Kentucky agrees that the Product purchased is a financially-settled fixed for floating swap transaction that provides a price hedge should actual BRA results settle at prices above or below the Contract Price, as listed in Section 11. In other words, South Kentucky has entered into this transaction as a price hedge to its as yet unsecured RPM capacity obligation noted previously.

d. If South Kentucky agrees that the Product is as described, please explain how has South Kentucky determined that the Product is not a derivative of the underlying RPM capacity obligation.

e. Please indicate whether South Kentucky will be requesting approval to enter into a physical RPM capacity obligation in this proceeding or in a later filing with the Commission and be seeking approval from the RUS.

37. Please refer to South Kentucky's supplement response to the Cooperatives' First, Items 1 and 2. Concerning the two line of credit agreements:

a. Please explain the difference between an "As-Offered Uncommitted Line of Credit" and a "Revolving Line of Credit".

b. Please explain why South Kentucky needed to execute both of these line of credit agreements in September 2017.

c. Please explain whether either of these line of credit agreements were taken out in conjunction with the proposed Morgan Stanley transaction. If there is an association between either line of credit agreement and the proposed Morgan Stanley transaction, please explain how the applicable line of credit agreement is associated with the proposed Morgan Stanley transaction.

d. Please provide the total annual fees in dollars for each line of credit agreement.