

MAY 31 2013

PUBLIC SERVICE
COMMISSION

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May 31, 2013

VIA HAND DELIVERY

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

RE: *In the Matter of the Application of East Kentucky Power Cooperative, Inc. to Transfer Functional Control of Certain Transmission Facilities to PJM Interconnection, LLC, P.S.C. Case No. 2012-00169 - Annual Report of East Kentucky Power Cooperative, Inc. – Request for Confidential Treatment*

Dear Mr. Derouen,

Attached, please find a copy of the Annual Report of East Kentucky Power Cooperative, Inc. (“EKPC”) regarding its participation in the PJM Interconnection, LLC (“PJM”) (“Annual Report”). In accordance with KRS 61.878, 807 KAR 5:001, Section 13(3) and other applicable law, EKPC hereby respectfully requests that certain portions of the Annual Report should be classified as confidential for a period of five years from the date of this filing, for the specific reasons set forth below.

The Kentucky Open Records Act exempts from disclosure certain confidential and proprietary commercial information. *See* KRS 61.878(1)(c). To qualify for this exemption from public disclosure and, therefore, to maintain the confidentiality of the information, a party must establish that disclosure of the confidential and proprietary commercial information would permit an unfair advantage to competitors of that party. Public disclosure of the Confidential Information described in the Annual Report would lead to such a result.

The Annual Report includes a disclosure of: (1) the amount of Annual Revenue Rights (“ARRs”) and associated ARR revenue allocated to EKPC; (2) the amount of ARR converted to Financial Transmission Rights (“FTRs”); (3) the amount of revenue remaining after converting to FTRs; (4) the additional amount of transmission rights purchased by EKPC; (5) EKPC’s hedging positions. Given the nature of the ARR/FTR market, EKPC and its Members would be materially damaged if EKPC’s competitors were permitted to have access to this information. The information provided under seal discloses sensitive and proprietary information as these positions, and the underlying strategies, are used by EKPC to provide service to its Members at

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fair, just and reasonable rates. Maintaining the confidentiality of this information is necessary to protect the interests of both EKPC and its Members.

The public disclosure of the Company's transmission rights awarded, converted and purchased – as well as its hedging strategies – would reveal the information that is, quite obviously, highly sensitive, commercially valuable and strictly proprietary. The public disclosure of this information would potentially harm EKPC's competitive position in the marketplace, to the detriment of EKPC and its customers. The Confidential Information contained in the exhibit to the Annual Report was developed internally by EKPC personnel, is not on file with any public agency, and is not available from any commercial or other source. Moreover, the aforementioned Confidential Information in the Annual Report is distributed within EKPC only to those employees who must have access for business reasons, and is generally recognized as confidential and proprietary in the energy industry. The Confidential Information for which EKPC is seeking confidential treatment is not known outside of EKPC. This Confidential Information was, and remains, integral to EKPC's effective execution of business decisions and strategy. Indeed, as the Kentucky Supreme Court has found, "information concerning the inner workings of a corporation is 'generally accepted as confidential or proprietary.'" *Hoy v. Kentucky Industrial Revitalization Authority*, 907 S.W.2d 766, 768 (Ky. 1995).

The attached information is also entitled to confidential treatment because it constitutes a trade secret under the two prong test of KRS 365.880: (a) the economic value of the information as derived by not being readily ascertainable by other persons who might obtain economic value by its disclosure; and (b) the information is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The economic value of the information derives from the fact that it reveals EKPC's market positions and strategies – which is commercially valuable. Second, EKPC certainly endeavors to maintain the confidentiality of the information by limiting its dissemination, even within the company.

In accordance with 807 KAR 5:001, Section 13(3), I am enclosing: (1) one copy of the annual report, under seal, which identifies the confidential material; and (2) ten copies of the annual report in which the confidential material is redacted. On behalf of EKPC, I respectfully request that the Confidential Information be treated as confidential materials under the Commission's regulations for a period of at least five (5) years from today's date. Please return a file-stamped copy of this filing to my office.

Please let me know if you have any questions.

Sincerely,

Mark David Goss

Enc.

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RE: *In the Matter of the Application of East Kentucky Power Cooperative, Inc. to Transfer Functional Control of Certain Transmission Facilities to PJM Interconnection, LLC, P.S.C. Case No. 2012-00169 - Annual Report of East Kentucky Power Cooperative, Inc.*

Dear Mr. Derouen,

In accordance with the December 20, 2012 Order of the Kentucky Public Service Commission (“Commission”) in the above-styled case, please accept this as the annual report of East Kentucky Power Cooperative, Inc. (“EKPC”) regarding its participation in the PJM Interconnection, LLC (“PJM”). In accordance with the Order, I would request that you place this annual report in EKPC’s company correspondence file.

I am pleased to report that the effort to become fully integrated into PJM on June 1, 2013 is on schedule and proceeding according to plan. At this point, we anticipate that there will be no operational issues associated with the formal transfer of functional control of certain of EKPC’s transmission facilities to PJM. Moreover, we have been working steadfastly to assure that the “back office” aspects of the transition are smooth and seamless as well. The integration has been a great team effort and we are eager to make the formal transfer of functional control later this week. With regard to the four specific topics of interest in the Commission’s December 20, 2012 Order, I can report as follows.

Transmission Rights Awarded and Purchased

The December 20, 2012 Order directs EKPC to set forth “in detail the amount of transmission rights awarded and purchased.” As the Commission is aware, Transmission Rights are awarded in PJM to provide a market-based methodology for managing and mitigating congestion costs on the electric grid. As a load serving entity in PJM, EKPC will be awarded transmission rights that are commensurate with its relative participation in the PJM system. In the Planning Year 2013/2014 Annual Allocation, EKPC was allocated [REDACTED] MW of Annual Revenue Rights (ARRs), for a total revenue of [REDACTED]. EKPC converted [REDACTED] MW of that total to Financial Transmission Rights (FTRs) by self-scheduling those ARRs in the Annual Auction to use as a hedge throughout the planning year, leaving [REDACTED] available in ARR

revenue. In addition to self-scheduling in the Annual FTR Auction, EKPC also purchased an additional [REDACTED] MW of FTRs. As a result of the Annual Auction, EKPC was hedged overall [REDACTED] for the planning year. The June Monthly FTR auction recently occurred. During this auction, EKPC was able to purchase FTRs for June, July, August and each remaining quarter. EKPC purchased [REDACTED] MW of FTRs for the year, at a total cost of [REDACTED]. EKPC is currently hedged [REDACTED] on average for the planning year, with June 2013 hedged to [REDACTED].

Description of Hedging Plans and Strategies

The December 20, 2012 Order also directs EKPC to provide “a description of hedging plans and strategies to address transmission congestion and market prices for capacity and energy.” EKPC worked closely with ACES Power Marketing, LLC to develop the appropriate strategies to mitigate risk due to congestion and market prices for capacity and energy. The hedging strategy is to layer in the hedges over time which provides price diversity. There are four distinct opportunities for strategically adding hedges. [REDACTED]

Prior Year’s Benefits and Costs of PJM Membership

EKPC is also required by the December 20, 2012 Order to “provide a breakdown by category of the prior year’s benefits and costs of PJM membership.” Given that EKPC has not yet integrated into PJM, there is nothing to report at this time.

Projection of Future Benefits and Costs Reflecting the Most Recent PJM Capacity Auction Results

Finally, the December 20, 2012 Order directs EKPC to provide “a projection of future benefits and costs reflecting the most recent PJM capacity auction results.” PJM announced the result of its Base Residual Auction (BRA) for the 2016/2017 delivery year on Friday, May 24, 2013. Due to a unique convergence of factors, the clearing price for the auction was approximately half of the consensus forecast. EKPC’s very preliminary analysis suggests that EKPC will realize [REDACTED] from the 2016/2017 BRA.

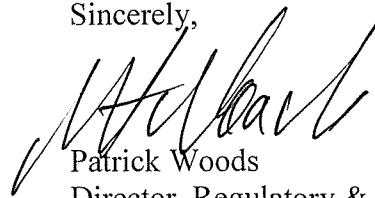
The fact that the clearing price was significantly lower than expected by virtually everyone in the industry suggests that the auction may have been influenced by external factors. PJM reports that 169,000 MWs of generation cleared the market representing a 21% reserve margin. There was a 90% increase in import offers into PJM compared to the 2015/2016 delivery year. There were 4,280 MWs of new gas fired generation bid into the market and 1,180 MWs of uprates. The projected load for 2016/2017 was flat from the 2015/2016 delivery year. There continues to be uncertainty with regard to federal environmental policy and the uncertainty frustrates the efforts of utilities to make long-term investment decisions regarding capacity. Moreover, the anticipated wave of generation retirements did not materialize in this auction, as the conventional wisdom suggested it would. This likely does not mean that utilities within the

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PJM region have firmly decided to retain all of their older coal fired generating units, but rather that they are seeking to maintain the greatest amount of flexibility in the face of federal policy uncertainty. Since the purpose of the BRA is to provide directional guidance for capacity investments, the primary lesson of the auction would appear to be that there will be little financial incentive for the development of new generation resources within the PJM region.

On behalf of EKPC, we are pleased to address any further questions that the Commission might have with regard to the company's integration and participation in PJM. We continue to believe that participation in PJM will allow EKPC to realize long-term value for its Members. Please feel free to contact me if you need any additional information.

Sincerely,



Patrick Woods
Director, Regulatory & Compliance
Services

Enc.

Schedule Redacted