EAST KENTUCKY POWER COOPERATIVE

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PUBLIC SERVICE COMMISSION

July 27, 2018

VIA HAND DELIVERY

Ms. Gwen Pinson
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 Ms. Pinson:

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(l)(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 ARRs 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 and (6) actual and projected membership costs and benefits (collectively, "Confidential Information"). 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 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, its hedging strategies, and actual and projected membership costs and benefits would

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reveal 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 Members. 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 Confidential 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 Confidential 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 do not hesitate to contact me if you have any questions or concerns.

Very truly yours,

Roger R. Cowden
Counsel for East Kentucky Power Cooperative, Inc.

Enclosure

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Dear Ms. Pinson,

In accordance with the December 20, 2012 Order of the Kentucky Public Service Commission ("Commission") in the above-styled case, and as modified by the May 14, 2015 Order in Case No. 2015-00116 (collectively, the "Orders"), please accept this as the Annual Report of East Kentucky Power Cooperative, Inc. ("EKPC") regarding its participation in the PJM Interconnection, LLC ("PJM") for the operating year June 1, 2017 through May 31, 2018. In accordance with the Orders, I would request that you place this Annual Report in EKPC's post-case correspondence file. With regard to the four specific topics of interest in the Commission's December 20, 2012 Order, I can report as follows.

<u>Transmission Rights Awarded and Purchased</u>

EKPC received Auction Revenue Rights ("ARRs"), based on its load requirements, during the annual allocation in April 2017. Those ARRs are used to obtain Financial Transmission Rights ("FTRs") to hedge the transmission congestion costs to serve EKPC's load throughout the delivery year. The ARRs can either be self-scheduled into FTRs or can be financially settled in the daily market and that revenue is used to purchase additional FTRs or used to off-set congestion costs. Attached is an Excel file (EKPC Auction Results 17_18.xls) on the enclosed CD, with the amount of Financial Transmission Rights ("FTRs") that EKPC had in total during the delivery year June 1, 2017 through May 31, 2018. The spreadsheet also shows the costs for the FTRs purchased and the value of the FTRs "self-scheduled". The values are listed for the 5x16 portion, which includes values applicable Monday through Friday from 7:00 a.m. through 10:00 p.m. The "wrap" is the off peak hours of 11:00 p.m. through 6:00 a.m. from Monday through Friday, plus the entire 24 hours on Saturday and Sunday. EKPC estimates the cost of the ARRs and FTRs to its members from June 1, 2017 through May 31, 2018 to be roughly [redacted] This cost has been included in the Trade Benefits described later in this report.

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Description of Hedging Plans and Strategies

EKPC utilizes services from ACES to assist with the hedging plans and strategies for transmission congestion. Each month, EKPC, with assistance from ACES, analyzes its expected transmission positions and needs through the remainder of the delivery year (June 1 through May 31). Based on this analysis, bids are developed for the monthly FTR auctions. EKPC plans to hedge up to [redacted] of its FTR needs in the Long Term Auctions (3-year auctions), an additional [redacted] in the annual auctions (covering the delivery year from June 1 through May 31), an additional [redacted] in the quarterly auctions and the final [redacted] in the monthly auctions. This strategy allows EKPC to layer its exposure to different price points in the market and to take advantage of potential low-cost opportunity markets. It also allows EKPC to adjust its expected needs based on actual loads realized in the near term and adjust its expectations as needed, so that its FTR position is not over-hedged in the market. EKPC's strategy is to match its FTR position as closely to its load serving requirements as possible to minimize its exposure to congestion costs. Transmission congestion within the EKPC system has been counter intuitive because of a significant amount of negative congestion. EKPC recently hired a consultant, The Brattle Group, to further investigate the underlying reasons for the negative congestion and to develop a more comprehensive strategy for managing the congestion cost exposure.

Regarding Hedging Plans and Strategy for Market Prices for Capacity and Energy, EKPC's strategy is to fully hedge its capacity price exposure in PJM's Reliability Pricing Model ("RPM") capacity auctions based on its load requirements and to sell all excess capacity for additional revenues. EKPC must purchase capacity based on its Net System Peak Load ("NSPL"). NSPL is based on EKPC's native load requirements coincident with the PJM summer peak load. EKPC will generally pay the same amount for its NSPL requirements on a $/MW-Day basis as it sells its capacity. Thus, EKPC's price exposure is hedged in the capacity market as long as its generation available to sell is equal to or greater than its NSPL. EKPC realizes additional value from the capacity auction by having excess capacity to sell. EKPC is a price taker on the excess capacity it sells.

EKPC's strategy for hedging its energy prices is to actively manage its expected cost to serve and minimize its risk exposure to price spikes. EKPC models and reviews its energy price exposure on a monthly basis, looking forward three years. EKPC utilizes a production cost model (RTSim – the same model used for its Integrated Resource Plan analysis) to estimate its energy price exposure within the PJM market. The model considers the expected fuel and operations costs for the EKPC generation fleet and compares those to expected market prices. This comparison determines if EKPC's generation is economic to operate, provides an estimation of how much the EKPC generation fleet will run and defines how much EKPC can expect to pay for its load requirements. Based on the model results, EKPC identifies potential forward purchases or sales that could lower its expected risk profile of its energy costs. This data also provides a view for EKPC's fuel procurement process, which then determines how much fuel should be purchased to ensure adequate and cost effective supplies.

Additionally, EKPC's Market Operations Center follows load and energy market trends daily and identifies opportunities to lower its net operating costs during the Day Ahead and Balancing markets.

Prior Year's Benefits and Costs of PJM Membership

In the following table, EKPC identifies its costs and benefits from June 1, 2017 through May 31, 2018. The Administrative Costs and Transmission Costs are based on accounting entries in EKPC's General Ledger and reflect actual billed PJM expenses. Trade Benefits are based on a detailed modeling effort. EKPC utilized its production cost model and simulated what its operations as a stand-alone Balancing Authority would have cost and compared that to the actual costs of operating in PJM. EKPC modeled actual loads, actual prices, actual generating unit availability statistics, and estimated transmission availability from outside resources. This methodology is similar to the methodology utilized in the study completed and entered into EKPC's request to the Commission to join PJM. Capacity Benefits are based on the actual cleared PJM RPM results and are shown on the monthly PJM invoice. The Avoided Point-to-Point Transmission Charges are based on the contract that EKPC had with PJM to purchase 400 MW of firm transmission and the published tariff rate associated with that purchase, but does not include any additional charges for actual energy transactions on the transmission. The results are included in the following table for the twelve-month operational period from June 1, 2017 through May 31, 2018.

June 1, 2017 through May 31, 2018

Category	Costs (in millions)	Benefits (in millions)
Administrative Costs	[redacted]	
Transmission Costs	[redacted]	
Trade Benefits		[redacted]
Capacity Benefits		[redacted]
Avoided PTP Transmission Charges		[redacted]
Subtotal	[redacted]	[redacted]
Net Benefits		[redacted]

Concerning the PJM capacity market benefits, in the December 20, 2012 Order the Commission conditioned its approval of the transfer of functional control of EKPC's transmission facilities to PJM upon EKPC agreeing to file by November 30, 2015 a rate mechanism to flow back to customers the PJM capacity market benefits. EKPC agreed to this requirement and filed Case No. 2015-00358 on October 30, 2015. As a result of discussions with the parties to that case, on August 8, 2016 EKPC filed a unanimous Stipulation and Recommendation ("Stipulation") that included a resolution of how to handle the PJM capacity market benefits. Under the terms of the Stipulation, EKPC would continue to record the capacity market benefits actually realized during the accounting periods as revenues. EKPC would also record as expenses during the appropriate accounting periods its PJM capacity market costs. Beginning on January 1, 2017 EKPC would also begin for accounting purposes to amortize the

Smith 1 regulatory asset, net of expected mitigation and salvage efforts, for a ten-year amortization period. In its January 10, 2017 Order, the Commission found the "Smith Solution" to be a reasonable proposal to effectuate a mechanism to flow the capacity benefits to the retail customers of EKPC's Member Systems. In compliance with the Stipulation and the Commission's Order, EKPC began the amortization for accounting purposes of the Smith 1 regulatory asset on January 1, 2017 and the actual net PJM capacity market benefits are providing a partial recovery of the amortization.

<u>Projection of Future Benefits and Costs of PJM Membership</u>

The December 20, 2012 Order directs EKPC to provide "a projection of future benefits and costs reflecting the most recent PJM capacity auction results." EKPC substituted known cost and benefit data into the worksheet used in the original analysis to project future benefits and costs. The original study was time and resource intensive and EKPC has no reason to believe the underlying basis of the analysis has changed significantly except for the actual costs and benefits that have been realized. The following table reflects inclusion of actual data along with original projections for the remainder of the study. [redacted]

[redacted] and EKPC's current market view indicates that the likelihood of this trend continuing is good. EKPC would note that the bulk of the Trade Benefits are returned to EKPC's Owner-Member Cooperatives and in turn to their End-Use Retail members through the Fuel Adjustment Clauses, a fact the Commission acknowledged in its December 20, 2012 Order in Case No. 2012-00169.

June 1, 2013 through December 31, 2022

Category	**Costs (Original/Updated)**	**Benefits (Original/Updated)**
Administrative Costs	[redacted]	
Transmission Costs	[redacted]	
Trade Benefits		[redacted]
Capacity Benefits		[redacted]
Avoided PTP Transmission Charges		[redacted]
Subtotal	[redacted]	[redacted]
Net Benefits		[redacted]

EKPC can appreciate the caution exercised by the Commission when it established the filing of this report, given the concern that accompanied the granting of permission for EKPC's membership in PJM and EKPC's participation in the RPM administered by PJM. However, EKPC continues to believe that its positive experience since June 1, 2013 should adequately demonstrate the overall benefits of continued PJM membership and RPM participation. So, while this comprehensive Annual Report initially served as a means to evaluate the benefits of PJM membership, those portions of the report that reflect actual PJM results can be provided to the

Commission through other venues or on an as-needed basis. Consequently, EKPC respectfully requests that the Commission relieve EKPC from the filing of future comprehensive Annual Reports as detailed in the December 20, 2012 Order.

EKPC continues to believe that participation in PJM will allow it to realize long-term value for its Members. On behalf of EKPC, I would be delighted to address any further questions that the Commission might have with regard to either the data provided in this report or EKPC's request to be relieved from filing future such annual reports. Please feel free to contact me if you need any additional information.

Sincerely,

Patrick Woods
Director, Regulatory & Compliance Services

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