

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER) CASE NO.
COOPERATIVE, INC. FOR GENERAL) 2010-00167
ADJUSTMENT OF ELECTRIC RATES)

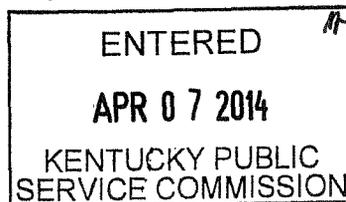
ORDER

The Commission, on its own motion, hereby finds that Appendix A to the January 11, 2011 Order inadvertently omitted page 5 of the Settlement Agreement that was attached to Appendix A. Accordingly, the January 11, 2011 Order should be amended, *nunc pro tunc*, to the limited extent that Appendix A attached thereto is corrected to include page 5 of the Settlement Agreement.

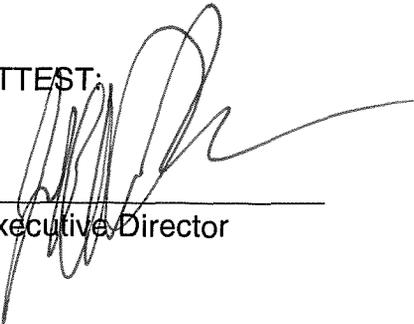
IT IS THEREFORE ORDERED, *nunc pro tunc*, that:

1. The January 11, 2011 Order is amended to the limited extent that Appendix A thereto is stricken and superseded by the Appendix to this Order.
2. All other provisions of the January 11, 2011 Order shall remain in full force and effect.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2010-00167 DATED **APR 07 2014**

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

**GENERAL ADJUSTMENT OF ELECTRIC RATES) CASE NO.
OF EAST KENTUCKY POWER) 2010-00167
COOPERATIVE, INC.)**

SETTLEMENT AGREEMENT

This Settlement Agreement (“Settlement Agreement”) is entered into this 30th day of November 2010, by and between East Kentucky Power Cooperative, Inc. (“EKPC”); Commonwealth of Kentucky, ex. rel. Jack Conway, Attorney General, by and through the Office of Rate Intervention (“AG”); and Gallatin Steel Company (“Gallatin”). Its terms are set forth below:

WITNESSETH:

WHEREAS, on May 27, 2010, EKPC filed with the Kentucky Public Service Commission (“Commission”) its Application for a General Adjustment of its Wholesale Electric Rates in a case styled, *In the Matter of: General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc.*, Case No. 2010-00167; and,

WHEREAS, the AG and Gallatin were granted intervention by Order of the Commission in this proceeding; and,

WHEREAS, a prehearing meeting for the purpose of discussing settlement, and related procedural and substantive issues, took place at the Lexington Office of Frost Brown Todd LLC

on November 24, 2010, which was attended in person by representatives of the AG, Gallatin, and EKPC (the "Parties") ; and,

WHEREAS, the Parties hereto desire to settle many of the issues pending before the Commission in the above-referenced proceeding; and,

WHEREAS, the adoption of this Settlement Agreement will decrease the need for the Commission and the parties to expend unnecessary resources litigating these proceedings; and, further, will greatly reduce the possibility of, and any need for, rehearing or appeals of the Commission's final order herein; and,

WHEREAS, it is understood by all Parties hereto that this Settlement Agreement is subject to the approval of the Commission, insofar as it constitutes an agreement by the parties for settlement, and, absent express agreement stated herein, does not represent agreement on any specific claim, computation, formula, allegation, assertion, contention, methodology, theory or ratemaking principle supporting the appropriateness of any proposed or recommended adjustments to EKPC's rates, terms, and conditions; and,

WHEREAS, the Parties agree that this Settlement Agreement, viewed in its entirety, is a fair, just, and reasonable resolution of many of the issues in the above-referenced proceeding; and,

WHEREAS, it is the position of the Parties hereto that the terms about which they can all agree as reflected in this Settlement Agreement are supported by sufficient and adequate data and information, and should be approved in its entirety by the Commission; and,

WHEREAS, the Parties understand and agree that the results of EKPC's 2010 Load Forecast have significantly impacted the billing determinants (i.e. kW, kWh) used by EKPC to generate its proposed rates in the original Application.

NOW, THEREFORE, for and in consideration of the good-faith negotiations entered into by the parties and the terms and conditions set forth herein, the Parties hereby stipulate and agree as follows:

ARTICLE I- Revenue Requirements and Revenue Allocation

1. The Parties, except for the AG, hereto agree and stipulate that a Forty-Three Million dollar (\$43,000,000) increase in annual revenue for EKPC, which represents a “black box” settlement, is fair, just, and reasonable for the Parties, except for the AG, and for all members of EKPC.
2. The Parties hereto agree and stipulate that the billing determinants used to develop rates will be those billing determinants derived from EKPC’s 2010 load forecast. However, the AG does not agree to or stipulate to the rates developed from the \$43,000,000 annual revenue increase.
3. The Parties hereto agree that the annual revenue increase will be effective for service rendered on and after January 1, 2011, or the date of the Commission’s Order placing such rates into effect, whichever is later, and this rate implementation date is fair, just, and reasonable for the Parties and for all members of EKPC.
4. The Parties hereto agree that the allocations of the increase in annual revenue for EKPC, as set forth on the schedule designated “Exhibit 1,” and the rates set forth on the tariff sheets in “Exhibit 2” hereto are fair, just, and reasonable for the Parties and for all members of EKPC.

5. The Parties hereto agree that the rates contained in "Exhibit 1" reflect a reduction in the allocation to Gallatin of \$500,000 to partially address the subsidy currently being paid by Gallatin, and allocates said subsidy reduction proportionally to all rate classes except the pumping stations.
6. The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
 - a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
 - b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
 - c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the

allocation established in “Exhibit 1,” attached hereto, by way of a Surcredit Application to be filed with the Commission.

7. The Parties hereto agree that EKPC shall file an application prior to the time frame established above in the “over-earning mechanism” for the purpose of recovery of the regulatory asset amortization, once the Commission enters a final Order, in Case No. 2010-00449.
8. The Parties hereto agree that EKPC shall consider the level of interest expense relating to Smith Unit 1 included in base rates in this proceeding (Case No. 2010-00167) when requesting amortization of the regulatory asset in Case No. 2010-00449, so as to prevent a double-recovery of interest expense by EKPC. The Parties agree that the amount of interest expense relating to Smith Unit 1 contained in this settlement is \$6,000,000 plus TIER. Once the final cancellation costs of Smith Unit 1 are determined, net of all mitigation, then EKPC shall reduce its base rates to all classes of customers proportionally by \$6,000,000 plus TIER and EKPC will seek to recover the net cancellation costs over ten years pursuant to the Settlement Agreement in Case No. 2010-00238.
9. Nothing contained in this Settlement Agreement shall act to restrict or prevent EKPC from filing a base rate case before the 2012 base rate case referenced in paragraph I.6.b. above should the Commission enter an Order allowing any amount less than a \$43 million base rate increase in this case.

ARTICLE II- Ancillary Matters

1. EKPC affirms to the Parties that the EKPC Board of Directors and Management have accepted all recommendations outlined in the Focused Management and Operations Audit Report prepared by the Liberty Consulting Group (“Liberty”), and have implemented or are in the process of implementing said recommendations.
2. EKPC will follow the recommendations in Liberty’s report and provide proof of same to the Commission and the AG.
3. The Parties hereto agree that the 10-minute interruptible credit for Gallatin will be increased to \$6.22/kW and this credit shall remain fixed for a period of three years from the effective date of the rates. After three years, this interruptible credit may be increased or decreased by Order of the Commission. The Parties agree that EKPC will absorb the revenue loss created by the increase in the 10-minute interruptible credit for Gallatin.
4. The Parties agree that, due to the existence of a special contract between Gallatin, EKPC, and Owen Electric Cooperative (Owen), it is fair, just, and reasonable that the increase determined for Gallatin under the terms of this Agreement should be the amount passed through by Owen to Gallatin. The Parties recommend that the Commission find that this approach is consistent with the provisions of KRS 278.455(3) and the Parties further agree and recommend to the Commission that this approach and finding is appropriate to other customers on tariff rate Schedule G.

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