

Steven L. Beshear
Governor

Leonard K. Peters, Secretary
Energy and Environment
Cabinet



Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

NEWS RELEASE

Contact:
Andrew Melnykovich
502-564-3940, ext. 208
502-330-5981 (cell)

PSC Approves EKPC Request to Cancel Power Plant *East Kentucky Power granted separate accounting of costs already incurred*

FRANKFORT, Ky. (Feb. 28, 2011) – The Kentucky Public Service Commission (PSC) today approved the cancellation of a power plant that East Kentucky Power Cooperative, Inc. (EKPC) had begun constructing in Clark County.

In a related case, the PSC also permitted EKPC to establish a regulatory asset for consideration of future recovery through rates of the \$157.4 million that it has already spent on the plant. EKPC will attempt to sell or put to other use the plant components and materials that it has already purchased, thus reducing the amount it will seek to recover through rates.

Both the plant cancellation and the establishment of the regulatory asset are addressed in a settlement reached by EKPC with other parties to the proceedings. They include the Kentucky Office of Attorney General, Gallatin Steel Co., and Wendell Berry, John Patterson and John Rausch, who are member-customers of rural electric cooperatives in the EKPC system.

EKPC is owned by and provides power to 16 distribution cooperatives with a total of more than 500,000 customers in 87 Kentucky counties.

Today's orders conclude the PSC's third review of the plant, known as Smith 1. A 278-megawatt, coal-fired unit, it was to be built at the utility's Smith Generating Station in Trapp.

The PSC first approved the plant in 2006 and endorsed it again in 2007, following the second review. A detailed timeline follows this release.

The review that ended today began in June 2010, when the PSC opened an investigation into the continued need for Smith 1 and incorporated into the investigation a complaint case filed by Berry, Patterson and Rausch. At the same time, the PSC accepted EKPC's withdrawal of a case that sought approval of the financing for the plant.

A subsequent review by EKPC of its future needs for new generating capacity concluded that a new plant will not be needed until 2018. The need for new power declined substantially from earlier forecasts, largely due to the economic recession.

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The EKPC analysis showed that several options would be less costly than completing Smith 1 and that at this time the lowest-cost options for ratepayers would be to meet future power needs by building a natural gas-fired plant, either by 2018 or in 2022. In the latter case, EKPC would purchase power from outside sources to meet its needs in the interim.

The settlement agreement also addresses several issues outside the PSC's jurisdiction, notably environmental permits for the plant and several legal challenges filed against EKPC related to environmental matters.

Also included in the settlement agreement is a provision establishing a group that will assess EKPC's efforts in renewable energy and energy conservation. In addition to the parties to the settlement, it would include EKPC's member cooperatives and several environmental groups that were not parties to the case.

A regulatory asset is an accounting tool that allows unusual or one-time costs to be deferred for a period of time for possible future recovery through rates. The PSC will determine the recovery of the regulatory asset in a future rate proceeding.

EKPC said that it could take as long as 18 months to determine the disposition of the Smith 1 components it already owns. The largest and most expensive is the generator for the plant. Any revenue would be used to reduce the amount of the regulatory asset and the potential cost to ratepayers. EKPC is to file regular progress reports with the PSC beginning July 1, 2011.

Today's orders, documents in the cases and videos of the hearing are available on the PSC website, psc.ky.gov. The investigation is case number 2010-00238 and the regulatory asset case is 2010-00449.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 100 employees.

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FOLLOW THE PSC ON TWITTER AT KYPSC

SMITH 1 TIMELINE FOLLOWS

TIMELINE OF THE SMITH 1 POWER PLANT

- January 2005 EKPC files an application to construct the 278-megawatt coal-fired Smith 1 unit and five 90-megawatt gas turbine generators at the Smith Station in Trapp, in Clark County. The projections for increased power demand included the needs of 60,000 customers of the Warren Rural Electric Cooperative, which had decided in 2004 to join the EKPC system.
- August 2006 The PSC approves EKPC's application.
- December 2006 Warren Rural Electric Cooperative reverses its decision to join EKPC and decides to remain within the Tennessee Valley Authority system. In response, the PSC opens a review of EKPC's generation needs.
- May 2007 The PSC allows EKPC to continue with Smith 1, but the utility voluntarily cancels plans for three of the five gas-fired generators.
- October 2009 Berry, Patterson and Rausch, as well as three environmental groups, file a complaint with the PSC, saying that Smith 1 is no longer needed and is not the least-cost means of meeting EKPC's future power needs. The PSC allows the complaint to go forward with the three individual plaintiffs.
- December 2009 EKPC files an application to take on up to \$921 million in additional debt, mostly to pay for Smith 1. Gallatin Steel is allowed to intervene in the case.
- June 2010 The PSC opens its investigation into the continued need for Smith 1, combining it with the complaint case and allowing EKPC to withdraw the financing request. All parties to the complaint and financing cases are made parties to the investigation.
- February 8, 2011 The PSC holds a combined evidentiary hearing in the investigation and regulatory asset cases.
- February 28, 2011 The PSC issues orders allowing cancellation of Smith 1 and establishing a regulatory asset to separately account for the sunken costs.