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Commonwealth of Kentucky  
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Mark David Goss  
Chairman

Teresa J. Hill  
Vice Chairman

Gregory Coker  
Commissioner

May 24, 2006

TO: PARTIES OF RECORD  
RE: Case No. 2006-00150  
South Kentucky Rural Electric Cooperative Corporation

Enclosed is a Settlement Agreement containing the terms negotiated between you and Commission Staff. Please execute the Agreement and return it to James R. Goff, Staff Attorney, for presentation to the Commission.

Also enclosed is a memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Questions regarding this memorandum or the Settlement Agreement should be directed to Mr. Goff at 502/564-3940, Extension 261.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

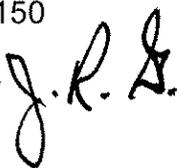
Beth O'Donnell  
Executive Director

vh/  
Enclosures

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** File - Case No. 2006-00150

**FROM:** J. R. Goff, Staff Attorney 

**DATE:** May 23, 2006

**RE:** South Kentucky RECC  
Violation of KRS 278.042 and 807 KAR 5:006, Section 24

On May 17, 2006, an informal conference was held by telephone pursuant to the motion of South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") filed with its May 9, 2006 Response. Participating in the meeting were: For South Kentucky: Carol Wright; Eddie Black; and Attorney Darrell Saunders. For Commission Staff: John Shupp; Jeffrey Moore; and Staff Attorney J. R. Goff.

After a discussion of the procedure of the meeting, the representatives of South Kentucky presented their position as to the allegations contained in the show cause Order. South Kentucky explained to the Staff the provisions it has in place for safety programs. South Kentucky emphasized its extensive safety procedures and the programs for its employees. South Kentucky stated that it has an excellent safety record, it has won awards for its safety program, and that the PSC has requested that South Kentucky share its program with other utilities. South Kentucky acknowledged that its employees committed the violations and that the accident could only be attributable to a lack of employee concentration. South Kentucky stated that the employees had been disciplined and that the employees conducted utility-wide safety training presentations to emphasize these and other safety rules.

In response to Staff's question, South Kentucky said that they have sufficient equipment on the trucks and that the employee should not have used his pocket knife. South Kentucky also stated that it was reviewing and inspecting its entire lake crossings and this particular one had been reconfigured.

As a proposed settlement, South Kentucky agreed it would pay a civil penalty of \$500 for each of three violations, Nos. 5, 7, and 11 as listed in the Order of May 2, 2006, for a total civil penalty of \$1,500. Staff agreed to recommend to the Commission that the proposed settlement be accepted. Staff also agreed to recommend to the Commission that all remaining violations listed in the Order of May 2, 2006 be merged or dismissed. Staff agreed to prepare a settlement agreement incorporating these terms and to prepare an Order canceling the formal hearing.

The meeting was adjourned.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

SOUTH KENTUCKY RURAL )  
ELECTRIC COOPERATIVE CORPORATION )  
\_\_\_\_\_ ) CASE NO. 2006-00150  
ALLEGED FAILURE TO COMPLY WITH )  
KRS 278.042 AND 807 KAR 5:006, SECTION 24 )

**SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into this \_\_\_\_ day of May, 2006, by and between South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") and the Staff of the Kentucky Public Service Commission ("Commission Staff").

**WITNESSETH:**

**WHEREAS**, South Kentucky is a utility engaged in the generation, transmission and distribution of electricity to the public, subject to jurisdiction of the Kentucky Public Service Commission ("Commission") pursuant to KRS Chapter 278; and

**WHEREAS**, on March 9, 2006, an incident occurred at a South Kentucky work site near Bronston, Kentucky ("March 9, 2006 Incident"), which the Commission Staff investigated and submitted its Incident Investigation Report ("Report") on March 22, 2006; and

**WHEREAS**, on May 2, 2006, the Commission initiated Case No. 2006-00150 and ordered South Kentucky to show cause why it should not be subject to the penalties of KRS 278.990(1) for the alleged probable violations of the National Electrical Safety

Code ("NESC") and the Kentucky Administrative Regulations ("KAR") listed in the Report; and

**WHEREAS**, on May 9, 2006, South Kentucky, by counsel, filed its response to the Report and the Commission's Order of May 2, 2006, denying that South Kentucky had willfully violated the NESC or KAR as cited in the Report, and requested an informal conference with Commission Staff; and

**WHEREAS**, on May 17, 2006, South Kentucky and Commission Staff held an informal conference by telephone in which all issues were discussed; and

**WHEREAS**, South Kentucky called attention to its extensive safety procedures and programs for its employees, emphasizing that it has an excellent safety record and has won awards for its safety program and that the Commission itself has requested that South Kentucky share its program with other utilities as a model. The employees involved in the March 9, 2006 Incident conducted utility-wide safety training presentations to emphasize safety rules, and

**WHEREAS**, South Kentucky and Commission Staff negotiated a settlement through compromise resolving all issues surrounding the March 9, 2006 Incident; and

**WHEREAS**, South Kentucky and Commission Staff agreed that all allegations of violations contained in the Order of May 2, 2006 on page 3, as Nos.13 through 18, are to be merged into any penalty provisions herein;

**NOW, THEREFORE**, for and in consideration of the premises and conditions set forth herein, the signatories agree as follows:

1. South Kentucky is to be assessed a penalty of \$500 each for the violation of NESC Section 42, Rule 420-H as shown in paragraph 5 of the May 2, 2006 Order;

NESC Section 42, Rule 422-C (1), as shown in paragraph 7 of the May 2, 2006 Order; and NESC Section 42, Rule 421-A-2 as shown in paragraph 11 of the May 2, 2006 Order.

2. The allegations contained on page 2, violation of NESC Section 42, Rule 421-A-1, as shown in paragraph 9 of that Order is dismissed.

3. Within 10 days after the entry of an Order approving this Settlement Agreement, South Kentucky shall pay to the Commonwealth of Kentucky the sum of \$1,500 in full satisfaction of any applicable civil penalties associated with this proceeding. This payment shall be in the form of a cashier's check made payable to the "Treasurer of the Commonwealth of Kentucky" and shall be mailed or delivered to the Office of General Counsel, Public Service Commission of Kentucky, 211 Sower Boulevard, Post Office Box 615, Frankfort, Kentucky 40602.

4. South Kentucky acknowledges and agrees that it will conduct more audits of the work done by its independent contractors in 2006 than it conducted in 2005.

5. This Settlement Agreement is subject to the acceptance of and approval by the Commission. Following the execution of this Settlement Agreement, Commission Staff will recommend to the Commission that this Settlement Agreement be accepted and approved. If the Commission issues a final Order in which it accepts and approves this Settlement Agreement in its entirety, South Kentucky hereby waives its rights under KRS 278.400 to file an application for rehearing and its rights under KRS 278.410 to file a complaint in the Franklin Circuit Court regarding such Order of the Commission.

6. If the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be null, void, and withdrawn by the signatories hereto from further consideration by the Commission and none of the signatories shall be bound by any of the provisions herein; and (b) this proceeding shall go forward and neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories.

7. This Settlement Agreement reflects a compromise resolution of a contested matter. The scope of this proceeding is limited by the Commission's May 2, 2006 Order to whether South Kentucky should be assessed penalties under KRS 278.990 for willful violations of KAR and/or NESC Rules. Neither the payment of the civil penalty, nor any other terms of this Settlement Agreement, shall be construed as an admission by South Kentucky of a willful violation of any KAR or NESC Rule, nor shall it be construed as an admission by South Kentucky of any liability in any legal proceeding or lawsuit arising out of the facts set forth in the Report, nor shall the Commission's acceptance of this Settlement Agreement be construed as a finding of a willful violation of any KAR or NESC Rule.

8. This Settlement Agreement shall not be used for any purpose in any subsequent legal or administrative proceeding (other than a proceeding by the Commission to enforce the terms of this Settlement Agreement), and South Kentucky shall not be precluded or estopped from raising any issue, claim, or defense therein by reason of the execution of this Settlement Agreement.

9. South Kentucky and Commission Staff agree that this Settlement Agreement is reasonable, is in the public interest, and should be adopted in its entirety by the Commission. If so adopted by the Commission, South Kentucky agrees to waive its right to a formal hearing.

**IN WITNESS WHEREOF**, the parties hereto have hereunto affixed their signatures.

**South Kentucky Rural Electric  
Cooperative Corporation**

By \_\_\_\_\_  
Counsel

**Commission Staff  
Kentucky Public Service Commission**

By \_\_\_\_\_  
Counsel