

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)

O R D E R

By Order dated May 2, 2006, the Commission initiated this investigation to determine whether South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") should be subjected to the penalties prescribed in KRS 278.990(1) for alleged violations of KRS 278.042 and 807 KAR 5:006, Section 24. The alleged violations are set forth in a Incident Investigation Report ("Report") which was prepared by Commission Staff and attached as an appendix to the May 2, 2006 Order.

South Kentucky was directed to file a response to the allegations set forth in the Report and to show cause why penalties should not be imposed. South Kentucky timely filed its response and denied that it willfully committed any violation. It requested that the Commission dismiss the action or, in the alternative, that it suspend the scheduled hearing and schedule an informal conference with Commission Staff. The hearing was cancelled generally and an informal conference was conducted on May 17, 2006, during which Commission Staff and representatives of South Kentucky entered into negotiations to resolve all outstanding issues in this proceeding. A settlement agreement was reached and was subsequently reduced to writing and executed.

After reviewing the Settlement Agreement, the Commission finds that the agreement is in accordance with law, does not violate any regulatory principle, results in a reasonable resolution of this case, and is in the public interest.

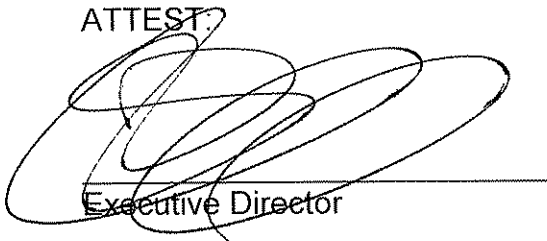
IT IS THEREFORE ORDERED that:

1. The Settlement Agreement is incorporated into this Order as if fully set forth herein and is appended hereto as Appendix A.
2. The terms and conditions set forth in the Settlement Agreement are adopted and approved.
3. Within 10 days of the date of this Order, South Kentucky shall pay to the Commonwealth of Kentucky the sum of \$1,500. This payment shall be in the form of a cashier's check made payable to the Treasurer, 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. Upon payment of the sum set forth in Ordering Paragraph 3, this case shall be closed and removed from the Commission's docket without further Order.

Done at Frankfort, Kentucky, this 5th day of July, 2006.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00150 DATED July 5, 2006.

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BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
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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 5th day of June, 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. 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.

5. 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.


6. 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.

7. 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.

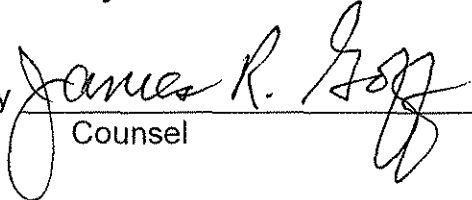
8. South Kentucky and Commission Staff agree that this Settlement Agreement is reasonable, is in the public interest, and should be adopted in its entirety by the Commission. If so adopted by the Commission, South Kentucky agrees to waive its right to a formal hearing.

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