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November 18, 2010

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NOV 18 2010

PUBLIC SERVICE
COMMISSION

Mr. Jeffrey Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602-0615

Re: East Kentucky Power Cooperative, Inc.
Application for An Order Approving the Establishment of a Regulatory Asset For the Amount Expended on Its Smith 1 Generating Unit

Dear Mr. Derouen:

Please find enclosed for filing with the Commission an original and ten copies of East Kentucky Power Cooperative, Inc.'s ("EKPC") Application for An Order Approving the Establishment of a Regulatory Asset for the Amount Expended on Its Smith 1 Generating Unit.

As indicated in the enclosed Application, EKPC respectfully requests a Commission decision on this matter by December 31, 2010. If this is not possible, then EKPC requests Commission approval no later than mid-February 2011.

Please feel free to call if you have any questions.

Sincerely yours,

Mark David Goss

Enclosures

cc: Hon. Dennis G. Howard, II
Hon. Lawrence Cook
Office of the Kentucky Attorney General
Hon. Michael Kurtz, Counsel for Gallatin Steel Co.
Hon. Robert Ukeiley, Counsel for Individuals and Environmental Groups

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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN APPLICATION OF EAST KENTUCKY	)	
POWER COOPERATIVE, INC. FOR AN	)	
ORDER APPROVING THE ESTABLISHMENT	)	**CASE NO. 2010-______**
OF A REGULATORY ASSET FOR THE AMOUNT	)	
EXPENDED ON ITS SMITH 1 GENERATING UNIT	)	

APPLICATION

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by and through counsel, pursuant to KRS 278.030, KRS 278.040(2), KRS 278.220 and 807 KAR 5:001, Section 8, and other applicable law, and for its Application requesting that the Kentucky Public Service Commission ("Commission" or "PSC") enter an Order approving the establishment of a regulatory asset for the amount expended on its Smith 1 Generating Unit ("Smith 1"), respectfully petitions as follows:

EKPC

1. Pursuant to 807 KAR 5:001, Section 8(1), EKPC's mailing address is P. O. Box 707, Winchester, Kentucky 40392-0707.

2. Pursuant to 807 KAR 5:001, Section 8(3), a certified copy of EKPC's restated Articles of Incorporation and all amendments thereto have previously been filed of record in PSC Case No. 90-197, the *Application of East Kentucky Power Cooperative for a Certificate of Public Convenience and Necessity to Construct Certain Steam Service Facilities in Mason County, Kentucky*.

3. EKPC is a "Utility" pursuant to KRS 278.010(3), and is a "Generation and Transmission Cooperative" as that term is defined in KRS 278.010(9). EKPC is engaged in the generation and transmission of electric power for sale on a wholesale basis to its member owners comprised of 16 "Distribution Cooperatives" as defined in KRS 278.010(10). Through its Distribution Cooperatives, EKPC serves approximately 519,000 customers in 87 Kentucky counties.

SMITH I

4. Because of its obligation to generate and transmit electric power to its member systems for sale on a wholesale basis, EKPC must ensure that it continually maintains an adequate portfolio of low cost and reliable generation in its system. In direct observance of that obligation, EKPC requested and was granted by the Commission a Certificate of Public Convenience and Necessity ("CPCN") to construct the 278 MW Smith Circulating Fluidized Bed Generating Unit ("Smith 1") in order to meet the projected demands of EKPC's member systems and to serve the power requirements of Warren Rural Electric Cooperative Corporation, which at that time intended to join the EKPC system as its 17th member.[1]

5. When Warren Rural Electric Cooperative Corporation subsequently terminated its power supply agreement with EKPC, the Commission embarked upon an investigation to determine if the generation from Smith 1 was still needed, and whether Smith 1 continued to provide the least cost power supply alternative for EKPC.[2] The Commission ultimately found that EKPC's ratepayers and the public interest at large would be best served by allowing EKPC

[1] PSC Case No. 2005-00053, *In the Matter of: Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity, and a Site Compatibility Certificate, for the Construction of a 278 MW (Nominal) Circulating Fluidized Bed Coal Fired Unit and Five 90 MW (Nominal) Combustion Turbines in Clark County, Kentucky*, Order of August 29, 2006.

[2] PSC Case No. 2006-00564, *In the Matter of: An Investigation Into East Kentucky Power Cooperative, Inc.'s Continued Need for Certificated Generation.*

to complete the construction of Smith 1 and avoid unnecessary penalties and cost escalations associated with lengthy delay.[3]

6. Following this Order, EKPC continued on a path toward constructing Smith 1 by entering into contracts with vendors and suppliers in an effort to lock-in the most favorable prices for parts, materials and supplies essential to the construction of the plant. EKPC also continued its efforts to obtain all necessary environmental permits and both short and long-term financing at reasonable rates of interest and term.

7. At the time of the Commission's May 2007 Order, EKPC's load forecast unequivocally supported the Commission's affirmation of the continued need for and least-cost of Smith 1.[4]

8. On March 11, 2008, the Department of Agriculture, Rural Utilities Service ("RUS"), issued a letter to the Honorable Henry A. Waxman, Chairman of the House Committee on Oversight and Government Reform, advising that it was placing an indefinite moratorium on providing low-interest federal financing for any new base load generating units. This moratorium affected Smith 1 and EKPC was immediately and unexpectedly faced with the need to obtain more costly financing for Smith 1 from the private financial market. In order to do that, EKPC requested and was granted a lien accommodation from RUS essentially allowing EKPC to obtain private financing by pledging as security a portion of its physical assets to lenders who would assume a security position for those assets superior to the RUS.[5]

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[3] Id., Order of May 11, 2007, pages 9-10.

[4] Id., pages 4-5, where EKPC estimated it would need 774 MW of additional generating capacity by 2011 to meet its native load requirements and a 12% reserve margin.

[5] Copies of both the RUS "moratorium" and "lien accommodation" letters are attached as Exhibit A to this Application.

9. Since entry of the Commission's May 11, 2007 Order reaffirming EKPC's CPCN for Smith 1, EKPC has periodically reviewed its analyses regarding both the need for Smith 1 and whether it remained the least costly option available to EKPC for the provision of wholesale power to its members. These reviews have clearly shown that the construction and operation of Smith 1 was the course EKPC and its members should pursue.[6]

10. On June 22, 2010, the Commission initiated its second investigation of EKPC's continued need for Smith 1.[7] The Commission listed three "substantial issues" which warranted the investigation: (1) EKPC's current projected need for additional base load generating capacity; (2) whether or not Smith 1 remains the least costly option available to meet a need for additional base load capacity; and, (3) the impact to EKPC's financial integrity and its future electric rates from either constructing Smith 1 or pursuing an alternative option if additional base load capacity is needed.[8]

11. The Commission's Order initiating this investigation was close in time with EKPC's work toward completion of its 2010 load forecast. As demonstrated in the 2010 Load Forecast and the testimonies of Julia J. Tucker, Gary G. Stansberry and Anthony S. Campbell filed in PSC Case No. 2010-00238, copies of the transcripts only of which are specifically incorporated into this Application as Exhibits B, C and D, respectively, EKPC's load growth has experienced a significant downward trend and it is now projected that new base load generation

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[6] PSC Case No. 2009-00106, *In the Matter of: 2009 Integrated Resource Plan of East Kentucky Power Cooperative, Inc.* The Integrated Resource Plan document confirmed the continued need for Smith 1; see Table 8.(3)(b) 11-5, page 8-104, which includes Smith 1 as a "planned electric generating facility" to be placed in commercial operation by October 2013.

[7] PSC Case No. 2010-00238, *In the Matter of: An Investigation of East Kentucky Power Cooperative's Need for the Smith 1 Generating Facility.* The Commission's first investigation of "continued need" was, of course, PSC Case No. 2006-00564 referred to previously in this Application.

[8] Id., Order of June 22, 2010, pages 5-6.

is not needed on the EKPC system until at least 2018.[9] In addition, Smith 1 is no longer the least cost option for EKPC compared to other power supply alternatives,[10] and building Smith would place an undue burden on EKPC from a long-term debt perspective, and would cause EKPC's rates to its members to increase substantially.[11]

12. As a result of the foregoing, EKPC's Board of Directors has recently voted unanimously to voluntarily surrender the CPCN for Smith 1 and enter into a Settlement Agreement with the Kentucky Attorney General, Gallatin Steel Company and certain individuals and environmental groups, including the Sierra Club. This Settlement Agreement is meant to dispose of all issues concerning the construction and placement into operation of Smith 1 forming the basis of the Commission's investigation in PSC Case No. 2010-00238.[12] Among the issues addressed in this Settlement Agreement are the parties' recognition that the approval of a Regulatory Asset for EKPC to recover its costs to date for Smith 1 is vital to EKPC's continued financial and operational viability. Indeed, none of the parties to the Settlement Agreement oppose EKPC's receipt of appropriate accounting treatment for these costs.[13]

ESTABLISHMENT OF A REGULATORY ASSET

13. A regulatory asset is created when a utility is authorized by its regulatory authority to capitalize an expenditure that under traditional accounting rules would be recorded as a current expense. The reclassification of an expense to a capital item allows the utility the

[9] Julia J. Tucker testimony, page 8, PSC Case No. 2010-00238, Exhibit B to this Application.

[10] Gary G. Stansberry testimony, page 10, PSC Case No. 2010-00238, Exhibit C to this Application.

[11] Anthony S. Campbell testimony, page s 5-6, PSC Case No. 2010-00238, Exhibit D to this Application.

[12] This settlement is of course subject to review, investigation and approval by the Commission. It also addresses several issues of dispute between the parties that are outside the parameters of the Commission's investigation in Case No. 2010-00238.

[13] Because their Settlement Agreement addresses the regulatory asset treatment that is being requested in the Application, it is attached hereto as Exhibit E.

opportunity to request recovery in future rates of the amount capitalized. The establishment of regulatory assets arises under the Commission's plenary authority to regulate utilities under KRS 278.040 and to "establish a system of accounts to be kept by utilities subject to its jurisdiction . . . and may prescribe the manner in which such accounts shall be kept."[14]

14. Utilities must obtain Commission approval for accounting adjustments before establishing any expense as a new regulatory asset. The Commission has exercised its discretion to approve regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative direction; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.[15] In exercising discretion to allow the creation of a regulatory asset, the Commission's overarching consideration is the context in which the regulatory asset is sought to be established and not necessarily the specific nature of the costs incurred.[16] It is the regulator's duty to employ every lawful and reasonable tool available to ensure that a regulated utility remains financially and operationally viable.[17]

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[14] KRS 287.220.

[15] PSC Case No. 2008-00436, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages*; Case No. 2008-00456, *Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset*; Case No. 2008-00457, *Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset*; Case No. 2008-00308, *Joint Application of Duke Energy Kentucky, Inc., Kentucky Power Company, Kentucky Utilities Company and Louisville Gas and Electric Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to Certain Payments Made to the Carbon Management Research Group and the Kentucky Consortium for Carbon Storage*; and Case No. 2001-00169, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving Proposed Deferred Debits and Declaring the Amortization of the Deferred Debits to Be Included in Earnings Sharing Mechanism Calculations*.

[16] PSC Case No. 2008-00436, Order of December 23, 2008, page 5.

[17] Id., pages 5-6.

15. As of September 30, 2010, EKPC has spent $153.4 million on Smith 1 and its cancellation requires under generally accepted accounting principles that the investment made to date in Smith 1 be considered abandoned and, together with any additional costs associated with unwinding contracts, be expensed immediately unless it is probable that the Commission will order regulatory asset treatment.

16. EKPC's request in this Application meets criteria (1) and (4) for establishing a regulatory asset set forth in the Commission's Order in Case No. 2008-00436. EKPC meets criterion (1), because the extraordinary additional expense caused by the write-off of the Smith 1 investment could not have been reasonably anticipated or included in EKPC's planning; and, criterion (4), because the 20-year net present value of EKPC's revenue requirements shows the construction of Smith 1 is no longer the least cost power supply option when compared to other power supply alternatives. Thus, cancellation even with full recovery of costs incurred to date is a significantly lower cost than completing construction.[18]

17. Accounting guidance prescribed in Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation", and SFAS 90, "Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs" should be followed.

18. As of September 30, 2010, EKPC has spent $153.4 million on Smith 1 and its Members' equity is $252.5 million. EKPC's loan covenants on its unsecured credit facility require it to maintain at least $200 million in equity at the end of each calendar quarter, and require it to maintain an equity-to-asset ratio of 5% or more at the end of each calendar quarter. A write-off of the $153.4 million investment would immediately place EKPC in violation of

[18] Mike McNalley testimony, pages 5-6, filed in support of this Application as Exhibit F.

these loan covenants. The lenders in EKPC's unsecured credit facility likely would declare EKPC in default of its loan agreements and demand immediate repayment of the outstanding balance on the $450 million unsecured loan.[19] EKPC does not have the financial ability to satisfy such demand. However, this situation is wholly preventable by the establishment of the requested regulatory asset.

19. EKPC will continually seek to mitigate the balance of the regulatory asset by determining if certain components of Smith 1 are usable in its other circulating fluidized bed units, have a domestic and/or international market for sale, or if salvaging or scrapping them is an option. EKPC will, to the fullest extent reasonably and practically possible, mitigate the balance of the regulatory asset prior to seeking recovery in a future case.

20. To ensure that a regulatory asset can be recorded and a write-off to expense is not required in the 2010 year-end audited financial statements, which if occurred could cause EKPC to become in default of its loan covenants, EKPC respectfully requests the Commission's approval of this Application by December 31, 2010. If this is not possible, then EKPC needs Commission approval no later than mid-February, 2011, the end of external audit fieldwork.[20]

21. The expenditures which EKPC has made to date toward the construction of Smith 1 have been made prudently. These expenditures along with an estimate of contract unwinding costs and asset disposal costs are summarized in the table found as Exhibit G to this Application. Those known and estimated expenditures total $163,448,904. EKPC requests that the Commission enter an Order approving the establishment of a regulatory asset in the amount of $163,448,904, subject to on-going mitigation efforts by EKPC.

[19] Id., page 4.

[20] Id., pages 6-7.

WHEREFORE, on the basis of the foregoing, East Kentucky Power Cooperative, Inc., respectfully requests that the Commission enter an Order:

1. Approving the establishment of a regulatory asset for the amount of $163,448,904 expended and to be expended on its Smith 1 Generating Unit;

2. Granting the relief requested herein by Order dated on or before December 31, 2010 if possible, and if not, certainly by mid-February 2011; and,

3. Granting EKPC all other additional relief to which it may appear entitled.

Dated at Lexington, Kentucky, this 18th day of November, 2010.

MARK DAVID GOSS
Frost Brown Todd LLC
250 West Main Street, Suite 2800
Lexington, Kentucky 40507
(859) 231-0000 – telephone
(859) 231-0011 – fax
Counsel for East Kentucky Power Cooperative, Inc.

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EXHIBIT LIST

EXHIBIT	DESCRIPTION
A.	Rural Utilities Service correspondence
B.	Testimony transcript of Julia J. Tucker, Case No. 2010-00238
C.	Testimony transcript of Gary G. Stansberry, Case No. 2010-00238
D.	Testimony transcript of Anthony S. Campbell, Case No. 2010-00238
E.	Settlement Agreement, Case No. 2010-00238
F.	Testimony of Mike McNalley in support of Application for Regulatory Asset
G.	Summary of Smith 1 costs to September 30, 2010 including estimated contract unwinding costs and asset disposal costs

EXHIBIT A

RURAL UTILITIES SERVICE CORRESPONDENCE

USDA Rural Development

United States Department of Agriculture
Rural Development

MAR 11 2008

The Honorable Henry A. Waxman
Chairman, Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Waxman:

This is in response to your letter of February 14, 2008, jointly signed by Congressman Jim Cooper, in which you raised concerns and requested information regarding the financial analysis this Agency utilizes in making decisions on loans for new coal-fired generation plants.

The Administration presently is not funding loans for new base load generation plants until the Agency and the Office of Management and Budget can develop a subsidy rate to reflect the risks associated with the construction of new base load generation plants.

In the interim, the demand for electricity in all parts of the country, including rural areas, is continuing to grow significantly and all studies that we have seen indicate that energy efficiency practices, conservation measures and renewable energy sources, at best, can reduce approximately 17 percent of the demand. Carbon capture technology may ultimately become a significant part of reducing carbon dioxide emissions although it is likely to not be available in the near term in sufficient scale to address the expected demand requirements.

We are presently working with one cooperative that is proposing to install carbon capture technology on an existing coal fired plant. This will be an addition to what is now the world's largest carbon capture and sequestration project to be undertaken to date. The carbon dioxide from the plant will then be transported via a pipeline for enhanced oil recovery. A portion of the carbon dioxide will also be injected into a non-recoverable coal seam and will be monitored to ensure containment. Another portion will be injected into a saline formation and will also be monitored to ensure containment. The information relative to carbon capture and storage expected to be gained from this project will advance the technology that is needed by everyone concerned with the global warming issue. However, because the plant must divert a portion of its generated power in order to energize the carbon capture technology, this portion of its power will not be available to existing customers and must be replaced either by purchased power from the open market or by adding new sources to meet the needs of its existing rural customer base.

Mr. Chairman, today the Rural Electric Generation and Transmission Cooperatives generate a little less than five percent of the electricity generated in this country and generate 53% of the power supplied to member distribution cooperatives, purchasing the remainder from the private market and from Federal Power Marketing entities such as the Tennessee Valley Authority.

The Rural Electrification Program was conceived as a public/private partnership to assume the risks associated with providing affordable electricity to rural consumers because investor-owned utilities refused to assume the financial risk due to the lack of consumer density. Cooperatives average about 7 consumers per mile of line compared to investor-owned utilities averaging 35 consumers per mile of line. This Agency and the cooperatives have successfully managed the risks associated with the low density and minimal levels of revenue, in the form of margins, for over 75 years. Additionally, together we have successfully managed the implementation of each new environmental standard as they have been promulgated and as new technology has become available.

Although the costs of meeting environmental requirements continue to be significant, cooperatives have remained financially sound. The Agency and the cooperatives are acutely aware of the costs associated with the control of greenhouse gas issues and stand ready to manage the implementation of carbon dioxide standards when issued even though the costs will affect rural consumers more than those located in more urban areas. The disparity in costs will result from the fact that consumer density is significantly less than either municipal systems and investor-owned utilities. Additionally, rural consumers are more dependent on coal-fired generation than the rest of the country and are very concerned with the greenhouse gas emissions, just as everyone else in the country.

Approximately one-third of the generation and transmission cooperatives the Agency serves are rated by the three major rating agencies and four of these cooperatives have AA ratings from one of the three rating agencies (S&P, Fitch, Moody's). These are the only AA rated utilities in the country. One significant component of that rating is the ability of the cooperatives to manage financial and operational risks. Secondly, the rating agencies find great strength in the wholesale power contracts and the cooperative's ability to generate adequate margins to cover the debt service. There are several other generation and transmission cooperatives that are currently considering obtaining ratings.

The Agency's regulations require it to make an environmental assessment of every generation project that it finances that exceeds 20 megawatts of capacity. Power plants of 20 megawatts or less are generally renewable energy or distributed generation plants, not plants. The environmental assessment also determines the need for an Environmental Impact Statement (EIS) which is typically a 2 year process examining potential environmental (including emissions), cultural, and historical impacts. The EIS also analyzes the need for the additional capacity and alternatives to the proposed project and includes consideration of renewable energy, energy efficiency measures, purchasing power from other sources and alternate fuel sources. During this process, the public is invited to participate and provide comments.

The Agency also conducts an assessment of the load forecast justifying the need for the project as well as a financial feasibility assessment and engineering review of the project. If the proposed plant is a unit, greenhouse gas emissions and the possible effects on global warming are evaluated within the limits of today's technology and costs to the extent possible. The Agency's approach to these projects is very similar to the three major, private sector lenders referenced in your letter. However, the Agency is the only lender requiring the completion of an Environmental Review prior to the approval of any loan. And, unlike the private sector lenders, we have an engineering staff that assists in the review of the feasibility of requests for federal financing.

Meaningful analysis of the cumulative impacts of an individual proposed plant on global climate change presents a difficult analytical challenge due to the current state of the science. As you are aware, at present there are no thresholds or standards available to enable an assessment, nor is practical technology to control or capture greenhouse gas emissions likely to be available in the near term. At this time analysis of the financial impacts of future laws, standards and costs of technology would be speculative. The Agency, its borrowers, and everyone involved in this industry are very much aware of the various legislative proposals that have been discussed as well as the potential financial impacts.

I believe that everyone involved in the electric industry would welcome a standard so that the Agency and its borrowers can plan adequately and begin meaningful financial risk analysis. The cooperatives we serve are owned by the people served by them and the management of these organizations has been consistently informing their member/owners of the potential costs of controlling greenhouse gas emissions.

Mr. Chairman, as reflected in the responses to your questions, the Agency has loaned over $25 billion from FY 2001 through FY 2007. Only $1.3 billion has been loaned for new coal-fired generation plants and $1.5 billion has been for environmental improvements on existing plants.

Question 1. Identify the total amount of RUS's outstanding loans and loan guarantees for electric power. Please provide separate figures with respect to: (a) loans; and (b) loan guarantees for this response and each of the following questions that requests information about loans and loan guarantees.

NOTE. The vast majority of the guaranteed loans are made by the Federal Financing Bank and thus are classified as direct loans in accordance with the provisions of the Credit Reform Act of 1990. There is approximately $262 million in guaranteed loans made by the National Rural Utilities Cooperative Finance Corporation or CoBank in 1999, 2000, and 2001. However, none of the guarantees were for base load generation.

Response: As of December 31, 2007, the Agency had 6,240 outstanding loans totaling $35.9 billion. At present the portfolio has a delinquency rate of .01%.

Question 2. Identify RUS's total amount of loans and loan guarantees for power plants with uncontrolled greenhouse gas emissions.

Response: The majority of the plants financed by the Agency were constructed prior to 1985. The Agency estimates that it will take two to three weeks to manually search files to obtain the requested information. Records detailing information on the plants have been archived, but we will provide the information as soon as possible. The information for loans for coal fired generation since 1980 is shown below:

Borrower	Approval Date	Amount for Generation	Capacity in Mega Watts	Comments
Sunflower Electric Power Cooperative	05/1980	$465,000,000	360	Holcomb Unit #1
North East Texas Electric Cooperative	07/01/1985	$24,804,000	37	5.86% of Dolet Hills Plant
Alabama Electric Cooperative	09/28/1990	$53,799,000	108	8.16% of J.H. Miller Plant
East Kentucky Power Cooperative	09/23/2003	$413,753,000	268	Gilbert Plant
East Texas Electric Cooperative	06/17/2004	$79,403,000	182	Ownership in three Entergy units
Cornbelt Electric Cooperative	08/12/2004	$65,395,000	42	5.6% of Council Bluff Plant
Central Iowa Power Cooperative	08/12/2004	$89,923,000	60	8.0% of Council Bluff Plant

Dairyland Power Cooperative	09/07/2005	$280,000,000	150	30% of Westin Plant #4
East Kentucky Power Cooperative	02/23/2006	$481,388,000	278	Spurlock #4 Plant

Question 3. Identify the number and amount of new loans and loan guarantees that RUS provided each year for electric power, starting in 2001.

Response. The table below reflects total financing of all generation, transmission, and distribution purposes.

Fiscal Year	Number of Loans	Amount
2001	226	$2,615,527,470
2002	184	$4,073,792,946
2003	197	$3,971,638,355
2004	221	$3,831,803,000
2005	111	$4,319,115,000
2006	118	$5,389,764,356
2007	103	$3,889,764,304

Of the amounts funded from 2001 through 2007, $1.5 billion was for environmental improvement technology on existing plants as shown below

Fiscal Yr.	Borrower	Environmental Funds	Project Description
2001	Buckeye Power	$120,000,000	Scrubbers
2001	Southern Illinois	$37,820,000	Scrubbers
2002	East Kentucky	$223,500,000	Scrubbers
2003	Buckeye Power	$42,868,000	Cost Overruns-F8 Scrubber Loan
2004	Dairyland Power	$125,688,847	Environmental Control (baghouse & low NOx burner)
2005	Buckeye Power	$239,760,000	Flue Gas Desulfurization System (Cardinal Unit)
2006	Oglethorpe Power	$78,418,000	Misc. Environmental Compliance Projects
2007	Buckeye Power	$280,800,000	Flue Gas Desulfurization System (Cardinal Unit)
2007	Oglethorpe Power	$348,940,000	Misc. Environmental Compliance Projects
TOTALS		**$1,497,794,847**	

Question 4. Identify the number and amount of new loans and loan guarantees that RUS provided each year, starting in 2001, for power plants with uncontrolled greenhouse gas emissions. Identify each specific power plant that received such a loan, the size of the plant, when the plant began operation or will begin operation, and has been for coal fired generation.

Response. Since 2001 the Agency has loaned $25 billion, the amount loaned for coal fired generation is $1.3 billion. The remainder has been loaned for improvements to existing electric systems, environmental improvements, transmission, distribution, peaking and intermediate generation facilities which utilize natural gas as the fuel source. See Attachment 1.

Question 5 Identify the amount of new loans and loan guarantees that RUS projects it will provide each year for electric power over the next 10 years (or for whatever period for which RUS has made projections).

Response. The vast majority of the applications in house are for purposes other than the construction of new generation facilities. At present we have pending applications on hand totaling $12.1 billion, including the $6.5 billion expected to be made in FY 2008. The President's Budget for FY 2009 request a funding level of $4.0 billion. The $6.5 billion in FY 2008 will be used for environmental improvements, transmission and system improvements, distribution facilities, and renewable energy projects. We have four applications for plants. These applications total $1.2 billion and three applications are for minor percentages of plants being financed by the private sector. The specific information is as follows:

1. Kansas Electric Power Cooperative, 30 MW (3.5%) of a 850 MW Plant, $55 million. (State of Kansas)
2. East Texas Electric Cooperative, 50 MW (7.7%) of a 650MW Plant, $102 million. (State of Texas)
3. East Kentucky Power Cooperative, 278 MW, $685 million. (State of Kentucky)
4. Prairie Power, 130 MW (8.2%) in two plants totaling 790 MW, $385 million. (State of Illinois)

In addition to the above, the Agency has an application from Seminole Generation and Transmission Cooperative in Florida for a 750 MW plant totaling $1.4 billion that is currently inactive and another from Associated Electric Power Cooperative for a 660 MW plant for $1.2 billion. This application has been withdrawn. Additionally, Basin Electric Cooperative in North Dakota withdrew an application last year and the Agency recently informed Southern Montana Generation and Transmission

Cooperative that it would not finance the plant due to past and anticipated delays and resulting increased costs.

Question 6. Identify the amount of new loans and loan guarantees that RUS projects it will provide each year for plants with uncontrolled greenhouse gas emissions over the next 10 years (or for whatever period for RUS has made such projections).

Response. As stated above, the Administration is not presently financing of base load generation plants, including , for FY 2008 until the Agency and OMB develop a subsidy rate sufficient to cover the risks associated with the construction of new generating plants.

Question 7. Identify each specific power plant project for which RUS is currently considering providing financial support. For each plant, please include the name, location, size, total cost, projected schedule for construction and beginning operation, quantity of loans and loan guarantees requested, status of RUS's consideration of the loan request, whether the plant will include technology to control greenhouse gas emissions, and its projected quantity of annual and lifetime greenhouse gas emissions.

Response. See the response to Question 6 above. The plants referenced in the response to question 5 do not include technology to control greenhouse gas emissions. This technology will not be available in the near term. However, the Agency has a history of, and would finance only the best available technology.

Question 8. Explain whether prior to providing a loan or loan guarantee for the construction of a new power plant without greenhouse gas emission controls, RUS routinely analyzes the financial risks associated with the potential for regulation of greenhouse gas emissions.

a. If RUS routinely conducts such an analysis, describe the analysis. Include details on the following:
   I. The assumptions RUS makes about the likelihood, timing and stringency of such regulations;
   II. The assumptions RUS makes about the quantity of emissions allowances, if any, that the government might provide free of charge; and
   III. Assumptions RUS makes about the price per ton of carbon.

b. If RUS does not routinely conduct such analysis, explain why not. Please state whether you will commit to such analysis for all loans and loan guarantees that have not yet been finalized. If you will not make such a commitment, please explain why not.

Response. The Agency does not conduct an analysis of the cost of greenhouse gas emission regulations since there is no clear consensus on what emission standards will be enacted and associated costs. Attempting to make decisions on loans absent a factual base is speculative at best.

Unlike other private sector lenders that are dependent on Public Utility Commissions to approve the rates necessary to retire debt associated with a plant, most Agency borrowers are not subject to rate regulation by State Public Utility Commissions. The security instruments we hold on all assets of the cooperative require the Board of Directors to raise rates needed to meet all Agency debt obligations. If the cooperative is rate regulated, the commission must issue an order putting the plant in rate base.

Question 9. Indicate whether RUS analyzed the financial risks associated with the potential for regulation of greenhouse gas emissions with respect to the proposed new Sunflower plant.

a. If RUS conducted such analysis, please provide the analysis.
b. If RUS did not conduct such analysis, I request that you do so now to provide a better understanding of the security of the government's outstanding loans to Sunflower. Please provide that analysis to the Committee when it is completed.

Response. The Agency did not conduct an analysis of the financial risks associated with the potential for regulation of greenhouse gas emissions with respect to the proposed new Sunflower plant because Agency financing is not being sought. The government's security for the existing Sunflower debt is not jeopardized because the Agency has a first lien on the existing Holcomb plant.

Question 10. Indicate whether RUS analyzed the possible electricity rate impacts for Sunflower's customers associated with the potential for regulation of greenhouse gas emissions with respect to the proposed new Sunflower plant.

a. If RUS conducted such analysis, please provide that analysis.
b. If RUS did not conduct such analysis, I request that you do so now to provide a better understanding of the rate impacts of Sunflower's proposal to invest in new coal plants. Please provide that analysis to the Committee when it is completed.

Response. The Agency did not conduct an analysis of the possible electricity rate impacts on Sunflower's members. That is the responsibility of Sunflower and the Kansas Corporation Commission.

Question 11 State whether RUS has considered or analyzed the potential effects of providing financing for new power plants with uncontrolled greenhouse gas emissions on the Administration's overall climate policies, efforts, and goals.

a. If RUS has considered such effects, please explain the results of such consideration and analysis.

b. If RUS has not considered such effects, please explain why not.

Response. At present, RUS is not funding any new coal fired power plants. Should RUS commence a program to fund new construction, it will consider and analyze any policies regarding greenhouse gas emissions in effect at that time.

A similar letter is being sent to Congressman Cooper.

Sincerely,

James M. Andrew

JAMES M. ANDREW
Administrator
Utilities Programs

Attachment

RUS Loan ɜrantees
New Coal-Fired Generation Capacity
FY 2001-2007

Fiscal Yr.	Designation	Loan Amt.	BP# 2 (Tran.)	BP #3 (Gen.)	Coal Gen.	Plant Name	Plant Size	% Share	MW Share	C.O.D.
2003	KY59 Z8	$433,863,000	$20,110,000	$413,753,000	$413,753,000	Gilbert	268 MW	100%	268 MW	2005
2004	IA83 AF8	$101,681,000	$11,758,000	$89,923,000	$89,923,000	Walter Scott Jr. Energy Ctr. #4	750 MW	8%	60 MW	2007
2004	IA84 AE8	$74,026,000	$8,630,512	$65,395,488	$65,395,488	Walter Scott Jr. Energy Ctr. #4	750 MW	5.6%	42 MW	2007
2005	WI64 BS8	$280,000,000		$280,000,000	$280,000,000	Westin #4	530 MW	30%	159 MW	2008
2006	KY59 AD8	$481,388,000	$43,000,000	$478,388,000	$478,388,000	Spurlock #4	278 MW	100%	278 MW	2008
TOTALS		**$1,370,958,000**	**$43,000,000**	**$1,327,459,488**	**$1,327,459,488**					

JUL 31 2009

Mr. R. Wayne Stratton
Chairman of the Board
East Kentucky Power Cooperative, Inc.
P.O. Box 707
Winchester, Kentucky 40392-0707

Dear Mr. Stratton:

We are pleased to advise you that the Rural Utilities Service (RUS) has approved a Lien Accommodation (Type II-A) of its mortgage for East Kentucky Power Cooperative, Inc. (EKPC) in order to permit EKPC to finance the construction of the new J. K. Smith Unit 1 (278 MW) Circulating Fluidized Bed Boiler Generation Project at the J. K. Smith Power Station located in Clark County, Kentucky. The lien accommodation is approved in an amount not to exceed $900,000,000 plus interest thereon, with a loan term not to exceed 35-years, and with all other terms and conditions satisfactory to RUS.

The lien accommodation will be secured under EKPC's existing mortgage with the RUS.

In addition, a copy of this approval letter will be sent directly to The National Rural Utilities Cooperative Finance Corporation.

Sincerely,

James R. Newby
JAMES R. NEWBY
Acting Administrator
Rural Utilities Service

CC: CFC
Official File – PSD-FOB (Kentucky 59 "LA14" Fayette)
Reading File – PSD-FOB (KY 59 LA14)
Loan Control (KY 59 LA14)
ADM
AAE
OGC
GFR
PSD-PSEB
TAAS-DCRS (Belcher)
PSD Financial Assistant

RUS:PSD:FOB:MChu:mlc:6/22/2009:KY 59 "LA14"ApprovalLetter

A.A.NO.:RE - 9520

EXHIBIT B

TESTIMONY TRANSCRIPT OF JULIA J. TUCKER
CASE NO. 2010-00238

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF EAST KENTUCKY POWER COOPERATIVE, INC.'S NEED FOR THE SMITH 1 GENERATING FACILITY	)))	PSC CASE NO. 2010-00238

TESTIMONY OF
JULIA J. TUCKER
DIRECTOR OF POWER SUPPLY PLANNING
EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: November 18, 2010

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

AN INVESTIGATION OF EAST KENTUCKY POWER COOPERATIVE, INC.'S NEED FOR THE SMITH 1 GENERATING FACILITY	**) PSC CASE NO.) 2010-00238)**

DIRECT TESTIMONY OF JULIA J. TUCKER, P.E.
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Q. Please state your name, business address and occupation.

A. My name is Julia J. Tucker and my business address is East Kentucky Power Cooperative (EKPC), 4775 Lexington Road, Winchester, Kentucky 40391. I am Director of Power Supply Planning for EKPC.

Q. Please state your education and professional experience.

A. I received a Bachelor of Science Degree in Electrical Engineering from the University of Kentucky in 1981. I received my Professional Engineer license from the State of Kentucky (Registration No. 15532) in 1988. I completed 18 hours towards a Masters of Business Administration degree. I have maintained my Continuing Education requirements for my P.E. license. I have been employed in various engineering, planning, and management roles with East Kentucky Power for over 23 years.

Q. Please provide a brief description of your duties at EKPC.

A. I am responsible for all generation / resource planning functions at East Kentucky Power, including day ahead planning, mid-term planning, long term resource planning, load forecasting, load research and demand side planning.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss EKPC's most recent long-term load forecast, EKPC's existing generating capacity, provide information regarding expected sales and reserve requirements, discuss EKPC's demand-side management programs and their impacts, and discuss EKPC's power supply options.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring five exhibits: Exhibit JJT-1, EKPC's 2010 Long-Term Load Forecast; Exhibit JJT-2, EKPC's expected capacity requirements as compared to its existing generating capacity; Exhibit JJT-3, Current and Planned Energy Efficiency and Demand Side Management ("DSM") Programs; Exhibit JJT-4, Expansion Plans; and, Exhibit JJT-5, Production Cost results for each case.

Q. When was EKPC's 2010 Long-Term Load Forecast completed?

A. EKPC completed its preliminary 2010 Long-Term Load Forecast in July. The preliminary load forecast was presented to EKPC's Board of Directors ("Board") in July 2010. After much review and discussion, the Board approved the 2010 Long-Term Load Forecast in November 2010. The Executive Summary from the EKPC 2010 Load Forecast report is included as Exhibit JJT-1. Energy sales and peak demand growth rates range from the 1.0 to 1.8%. This reflects the downward trend that EKPC has experienced in its load growth. Energy sales grew from 1999 to 2004 by an average annual rate of 4.2%; however, from 2004 to 2009, the energy sales grew by an average annual rate of 1.2%.

Q. How often does EKPC complete a load forecast?

A. EKPC completes a load forecast every two years, as required by Rural Utilities Service.

Q. Are there any significant changes in the 2010 load forecast as compared to the 2008

and 2006 load forecasts?

A. Yes. The significant changes include the following:

Economy

EKPC purchases county level projections of economic and demographic variables from IHS Global Insight, a consulting firm with expertise in economic modeling. The 2006 and 2008 economic projections did not project the recession that the US experienced beginning in late 2007. In 2005 when developing the 2006 forecast, the downturn had not yet begun. However, in 2007 when the 2008 forecast was developed, the majority of the member systems had begun to see declines in housing starts and development in their service territory resulting in a more conservative forecast than the 2006 forecast. The 2010 load forecast does have the full impacts of the recession. Most notably, unemployment reached an all time high and is not expected to return to pre-recession levels for nearly 10 years. Related, personal income levels are also projected to be lower than the previous assumptions showed. Therefore, the 20 year projections developed in 2010 for customer growth and energy usage are lower than those in 2008 and 2006. Lastly, the automotive industry experienced sharp declines both in response to the national economic downturn and in Kentucky due to various Toyota recalls which resulted in lower sales and interruptions in automobile manufacturing. EKPC member systems serve many satellite industrial and commercial customers that produce parts for Toyota and, as a result of the aforementioned circumstances, were negatively impacted.

Price

The load forecast incorporates future electricity prices and customers' response to fluctuations in price. The forecast uses the most recent Board approved Twenty-Year

Financial Forecast which is developed in house. The 2010 long term projections are significantly higher than the ones used in the 2008 or the 2006 forecast. These increases are due to costs to build a scrubber on Cooper 2, assumptions about future environmental legislation issues such as carbon, and future power supply resources.

Efficiency

EKPC attains future appliance efficiency improvements from the Department of Energy (DOE) Energy Information Administration (EIA). According to the 2009 update, there are more improvements in HVAC and water heating than previously assumed. These efficiency improvements will result in lower sales as consumers change out older less efficient appliances for newer ones. This impact will be a gradual one. In addition, there are new lighting standards to take effect in 2012.

Direct Load Control

The 2008 and 2010 load forecasts incorporate the impacts of a direct load control program that began implementation in 2008. The program is a voluntary program whereby customers agree to have their water heater(s) and/or air conditioner(s) controlled during peak hours. The goal is to save 15 MW off the winter peak and 60 MW off the summer peak.

Q. Was the decline in projected load incorporated into EKPC's analysis of future power supply needs?

A. Yes. Seven cases comparing power supply options were developed based on the 2010 Load Forecast.

Q. What is EKPC's existing generating capacity?

A. EKPC owns and operates three coal fired generating stations, with a total station normal net capacity of 1,883 MW.

Dale Station consists of four pulverized coal units. Each of the first two units has a station normal net capacity of 23 MW. These two units became commercial on December 1, 1954. The third and fourth units have a station normal net capacity of 75 MW each. The third unit went commercial on October 1, 1957 and the fourth unit went commercial on August 9, 1960. Dale Station has a total station normal net capacity of 196 MW.

Cooper Station consists of two pulverized coal units. The first unit has a station normal net capacity of 116 MW and went commercial on February 9, 1965. The second unit has a station normal net capacity of 225 MW and went commercial on October 28, 1969. Cooper 2 is currently being retrofitted with pollution control equipment that will become operational in 2012. Cooper Station's total station normal net capacity is 341 MW, which will be reduced by approximately 8 MW when the pollution control equipment becomes operational.

Spurlock Station consists of four units, two pulverized coal and two circulating fluidized bed boilers. The first unit has a station normal net capacity of 300 MW and became commercial on September 1, 1977. The second unit has a station normal net capacity of 510 MW and went commercial on March 2, 1981. Both of these units are pulverized coal units and have been retrofitted with pollution control equipment. The third and fourth units are circulating fluidized bed boilers and each has a station normal net capacity of 268 MW. The third unit went commercial on March 1, 2005 and the fourth unit went commercial on April 1, 2009.

Smith Station has three 150 MW gas fired ABB combustion turbines with winter ratings of 150 MW each and summer ratings of 110 MW each. These three units went commercial in 1999. There are four 98 MW gas fired GE 7EA combustion turbines with winter ratings of 98 MW each and summer ratings of 74 MW each. Two of these turbines went into commercial operation in November 2001 and the last two became commercial in January 2005. Two new gas fired LMS 100 GE combustion turbines have winter ratings of 97 MW each and summer net capacity of 83 MW each. These units went into commercial operation in 2010.

Other Generation Resources - In addition, EKPC owns and operates 16.8 MW of landfill gas generating plant capacity.

In total, EKPC owns and operates 2,936 MW of generating capacity, based on winter temperature ratings.

EKPC purchases 170 MW of hydropower from the Southeastern Power Administration ("SEPA") on a long-term basis. The 70 MW at Laurel Dam has continued to be reliable capacity. However, due to various dam repair projects, the 100 MW provided from the Cumberland System has not been dependable capacity during the past few years and is not expected to be considered dependable for another two to three years. Once the dam repairs are completed, the capacity should return to firm dependable status for the long term.

EKPC also has a contract with Duke Energy Ohio to purchase the output of the Greenup Hydro facility through 2010. Greenup Hydro is run-of-river generation located on the Ohio River with an average winter capacity of 35 MW. This contract will expire on December 31, 2010.

Q. How does EKPC's existing generation capabilities compare to its expected capacity and energy requirements going forward for the next 20 years?

A. EKPC has adequate summer capacity for the next several years, until approximately

2020. However, EKPC is a winter peaking system, and is already lacking sufficient capacity to cover its winter peak load plus reserves. This data is reflected in Exhibit JJT-2. The expected energy requirements will drive the type of capacity that EKPC will need to acquire, such as peaking versus intermediate versus base load. EKPC's average monthly load is a rough indicator of base load capacity needs. Based on this assumption, EKPC does not need additional base load capacity until approximately 2018. The seven cases to be compared for this analysis were developed based on the peak capacity requirements and the expected energy requirements. If a plan has too much or too little cost effective energy resources, it will be reflected in the total cost of the plan.

Q. What are EKPC's existing energy efficiency and demand side management programs and how do they impact EKPC's forecast?

A. For over 20 years, EKPC and its 16 member systems have promoted the cost-effective use of energy by offering conservation and other marketing programs to the retail customer. These programs were designed to meet the needs of the customer, and to delay the need for additional generating capacity.

These programs are implemented and administered by the member distribution systems. EKPC supports the member systems with analysis, promotional material, incentives, and other support services. EKPC considers these programs a part of its overall supply portfolio, with the understanding that the programs benefit EKPC indirectly, through its member systems.

To incorporate into the 2010 long term load forecast, a demand side management plan was developed to curtail load. The plan includes programs that are currently in existence and offered by EKPC's member systems to its customers as well as new programs.

Existing programs include:

Electric Thermal Storage Incentive Program

- Tune-Up HVAC Maintenance Program
- Button-up Weatherization Program
- Touchstone Energy Home Program
- Touchstone Energy Manufactured Home Program
- Compact Fluorescent Lighting Program
- Commercial Advanced Lighting
- Interruptible rates for industrial customers

New Programs include:

- Button-up Weatherization with Air Sealing Program
- Air Source Heat Pump replacing resistance heat
- Dual Fuel
- Industrial Compressed Air
- Direct Load Control of Air Conditioners and Water Heaters

Estimated demand and energy impacts as well as descriptions of the programs are shown on Exhibit JJT-3. The net total winter peak demand impact grows from 141 MW in 2010 to over 220 MW at the end of the 20 year period.

Q. Will you please describe EKPC's production costing model?

A. The primary model used in developing the production costs for each of the evaluated scenarios was RTSim from Simtec, Inc., of Madison, WI. The RTSim production cost model calculates the hour-by-hour operation of the generation system including unit hourly generation, commitment, power purchases and sales, including economy and day ahead transactions, and daily and monthly options. Generating unit input includes expected operating characteristics, Monte Carlo forced outages, unit ramp rates, and unit startup characteristics. The RTSim model uses a Monte Carlo simulation to capture the statistical variations of unit forced outages and deratings. The production cost model is simulating the actual operation of the power system in supplying the projected customer loads using the assumptions.

Input assumptions for the load are based on the information described in Exhibit JJT-1. Fuel, emission, variable O & M, purchase and sales costs are listed in Exhibit JJT-5. Also shown by unit in Exhibit JJT-5 is heat rate and unit availability data.

Q. Describe each case evaluated/modeled.

A. Case 1: Smith 1 as planned (2014 completion) – Base Case

Case 2: Delay Smith 1 for 2 years (2016 completion)

Case 3: Delay Smith 1 for 4 years (2018 completion)

Case 4: Cancel Smith 1, build a combined cycle unit in the optimal time frame

Case 5: Cancel Smith 1, provide all future power supply needs with a combination of increased DSM efforts and renewable generation resources

Case 6: Cancel Smith 1, depend on Purchased Power until 2022 then construct combined cycle generation

Case 7: Cancel Smith 1, sell the equipment to an entity constructing a similar plant and enter into a long term purchase agreement with same entity

See Exhibit JJT-4 for the capacity expansion plan for each case.

Q. In Case 3, why is EKPC using a four-year delay assumption versus a five-year delay?

A. The optimal time frame to construct a combined cycle unit in Case 4 is 2018. If Smith 1 were delayed five years it would come on line in 2019. The year difference between the two cases would have reflected potential savings in capital investments in two different years. Putting the capital investment in the same year gave a more appropriate comparison between cases, comparing the actual difference in resource costs and not reflecting a timing differential.

Q. What was the output of the production costing model?

A. Exhibit JJT-5 reflects the production data by unit for each case. The exhibit includes the capacity factor, availability factor, average heat rate, fuel cost, variable O&M costs, emission costs and total variable production cost by unit. It also shows expected off-system purchases and sales by case.

Q. How do the results of the production costing model flow to the financial forecasting model?

A. As discussed in Mr. Stansberry's testimony, the results of the production cost model are summarized in a spreadsheet format and electronically incorporated into the financial forecasting software.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT C

TESTIMONY TRANSCRIPT OF GARY G. STANSBERRY
CASE NO. 2010-00238

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF EAST KENTUCKY POWER COOPERATIVE, INC.'S NEED FOR THE SMITH 1 GENERATING FACILITY	) PSC CASE NO.) 2010-00238)

TESTIMONY OF
GARY G. STANSBERRY
MANAGER OF PERFORMANCE AND IMPROVEMENT
EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: November 18, 2010

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

AN INVESTIGATION OF EAST KENTUCKY POWER COOPERATIVE, INC.'S NEED FOR THE SMITH 1 GENERATING FACILITY	**) PSC CASE NO.) 2010-00238)**

DIRECT TESTIMONY OF GARY G. STANSBERRY
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Q. Please state your name, business address and occupation.

A. My name is Gary G. Stansberry and my business address is East Kentucky Power Cooperative (EKPC), 4775 Lexington Road, Winchester, Kentucky 40391. I am Manager of Performance and Improvement for EKPC.

Q. Please state your education and professional experience.

A. I have a Bachelor of Business Administration Degree in Accounting from Eastern Kentucky University, which I received in 1974. I have been employed by East Kentucky Power Cooperative since January 1981 in the areas of Accounting, Rates and Pricing, Performance and Improvement, and Financial Forecasting.

Q. Please provide a brief description of your duties at EKPC.

A. I am currently responsible for financial forecasting and corporate and business unit performance measures and targets at EKPC.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the financial forecasting model, to provide the financial results of the seven cases described in Ms. Tucker's testimony, and to discuss the impact on EKPC's members' rates.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits: Exhibit GGS-1—Net Present Value of Cost of Each Scenario; Exhibit GGS-2—Comparison PV Total Revenue Requirements from Members for each case, and Statements of Operations for each case; Exhibit GGS-3—Annual Revenue Requirements and Percentage of Existing Revenue Requirements - Case 1 - Total Dollars and as a Percentage of Existing Revenue; Exhibit GGS-4, Member Cost Summary and Rate Detail for each case, and Exhibit GGS-5, Financial Assumptions for the PSC Smith Investigation Study.

Q. Can you explain the financial forecasting process?

A. The long-term financial forecasting process is integrated with the overall planning process. The planning process begins with the load forecast, identifying the generation resources and capital investment necessary to meet peak, energy, and load reserve requirements. These additional resources, commonly referred to as an "expansion plan", along with EKPC's existing resources, are dispatched in an hourly production costing model to determine variable costs (fuel, purchased power, emissions) associated with meeting EKPC's load. These variable costs, along with fixed costs and the investments directly related to the expansion plan, are input into the financial model. The financial model incorporates all the financial parameters and projections of revenue, expenses, margins, assets, etc., which in turn develop the revenue requirements necessary for meeting proper financial objectives. These revenue requirements then translate into rates to our member systems. These rates then become an input into future load forecasts. The planning process with its related financial forecasting process is an interactive and circular process.

Q. How do the results of the production costing model, described in Ms. Tucker's testimony, flow to the financial forecasting model?

A. The output of the production costing model is summarized in spreadsheet form and includes fuel cost, generation levels (MWh), emission levels, power purchases and off-system sales. This data is entered into the financial model in its appropriate place.

Q. Can you explain more about the financial forecasting portion of the planning process?

A. The process incorporates the use of financial statements, including a statement of operations, cash flow, and balance sheet. Actual, budgeted, and forecasted data is used to project future financial positions. For example, an investment in future plant will show the need for increased debt with related interest, depreciation, taxes, insurance, and operation and maintenance (O&M) expense. This future plant example will then set into motion the cash flow aspects of principal payments increasing over time, recovery of depreciation, and the margin effect created by the above expenses. The balance sheet will reflect the increase in assets and corresponding funding by debt and equity. General expenses and capital costs are escalated over time based on the assumptions. Please refer to Exhibit GGS-5 "Financial Assumptions for PSC Smith Investigation Study" for additional assumptions.

Q. How does the need for rates enter into the forecasting process?

A. The financial situation produced by the forecasted financial statements referred to above, will change from year to year. These changes in financial positions are evaluated in light of creditor standards, company goals, and general business standards to determine the financial viability of the organization in that year. For example, a Times Interest Earned

Ratio (TIER), a Debt Service Coverage (DSC), and Equity to Asset ratio (Equity Ratio) are ratios to help evaluate the current year status. The recognition of revenue shortfall is addressed by the need for additional revenue requirements. These revenue requirements are then translated into future rates in order to recover the proper revenue for financial stability.

Q. How has the financial model been used to address the requirements of this order?

A. The financial model has been used with all seven cases, as described in Ms. Tucker's testimony, in addressing the requirements of this order. The revenue requirements have been determined in each case on a year by year basis, accumulated on a present value basis, and rates each year from the seven cases have been determined as shown in Exhibit GGS-1, Exhibit GGS-2, and Exhibit GGS-4. These exhibits also show the income statements for 20 years and the detailed rates by rate class for each case. A calculation of percentage increase in revenue requirements from the initial year is also contained in Exhibit GGS-3. These exhibits from the financial model address items 5-8 on pages 9 and 10 of the Commission's Order dated June 22, 2010.

Q. What level of TIER was used to determine the revenue requirements?

A. A TIER level of 1.50 was used to determine the revenue requirements. The revenue requirements are determined by the revenue generated from member rates to meet the expenses and margin requirements in a given year, plus any additional revenue needed through rate increases to achieve the financial stability required. This TIER level is consistent with the level used in Case No. 2010-00167.

Q. What assumptions are used in the financial model?

A. Assumptions include TIER, discount rate, CO_2 legislation, and residual values. I will expand on each of these assumptions.

Q. What was the basis for determining the rate increases?

A. As mentioned previously, a TIER of 1.50 was used as the basis of the earnings mechanism or margin level in each of the cases. This level reflects EKPC's management philosophy for its equity management and growth position. This value was used as a constant across all years and in all cases for determining the revenue requirements. By using this assumption, EKPC eliminates the timing differences which may occur from working within a bandwidth of minimum and maximum TIER levels. In this way revenue requirements are given equal treatment from the earnings mechanism in each year throughout all cases.

Q. How was possible CO2 legislation handled?

A. One of the assumptions used by EKPC considered the passing of some type of CO2 legislation. This is introduced into the model beginning in 2014 with a cap and trade arrangement. This is modeled after House Bill H.R. 2454: *American Clean Energy and Security Act of 2009* presented by Rep. Henry Waxman (D-CA). The total tons of CO2 produced by the generating units are captured from the production costing model. An EKPC tonnage allotment from EPA of approximately 57% of EKPC's usage is assumed beginning in 2014. This initial allotment of 6.8M tons decreases over time resulting in increasing cost for EKPC. The excess tonnage over the allotment amount results in EKPC's responsibility at forecast prices. The emission price forecast is provided by ACES Power Marketing and contained in the assumptions, provided with Ms. Tucker's testimony.

Q. What discount rate was used in the present value calculations?

A. The rate used was 7.52% and was based on EKPC's cost of capital. This was computed from EKPC's current rate case with a 2011 forecasted test year interest expense of 5.01% times 1.50 TIER. (Case No. 2010-00167, Application Volume 5, Tab 55).

Q. Were residual values of related plant investment considered in these cases?

A. Yes. Residual values of all new plant investment during the twenty year window were considered at net book value. These amounts are shown on Exhibit GGS-2 along with their related present value amount. This present value amount reduces the net present value revenue requirements in each calculation in arriving at the total. This applies to only new plant investment during the forecast period in order to give proper recognition of asset value at the end of the analysis period.

Q. Is there anything unique that you would like to explain about the financial model used in this analysis?

A. Yes. Normally, the first two years of this financial model encompass the Two-year Budget (2010-2011). In EKPC's current model, the "test year" from EKPC's current rate case (Case 2010-00167) has been substituted for the 2011 budget year. For accuracy reasons, this should be noted when the reference in the following discussion on "procedure and programming" speaks to this 2nd year budget as the 2011 budget year. The procedure and programming of the model requires the first two years to be hardcoded into the model. Forecasting amounts start thereafter beginning in 2012. The new 2010 load forecast has been incorporated into the analysis and affects years 2012 and beyond. Due to the timing of this Order, a new budget has not been completed in order to synchronize with the 2010 load forecast. Therefore, the first two budget years of the forecast are based on the modified 2008 load forecast. We recognize differences due to the slower-growth 2010 load forecast for those two years. The revenue downturn has been estimated at $164M with estimated margin reduction of $29M. The transition from 2011 budget year to 2012 forecast year therefore may produce results which seem disproportionate on the income statement and needs to be understood by this situation.

Q. Will this affect the results of this analysis?

A. The comparison results will not be affected. Each case includes the same assumptions relative to the two budget years of 2010-2011, and therefore, the measurement of differences between cases is preserved.

Q. How were the Cases 1-3 handled in regards to Smith 1?

A. Cases 1-3 retained Smith 1 in EKPC's portfolio for analysis purposes, yet in two-year delays to distinguish the cases. Therefore, Case 1 (base case) includes Smith 1 for 2014 and Cases 2 & 3 follow with 2016 and 2018 dates respectively.

Q. How were the cases handled which removed Smith 1 from EKPC's books?

A. Cases 4, 5 and 6 incorporated the recovery of a regulatory asset in the amount of the Smith 1 net investment. This amount was $151 million as of 2009. The budgeted amount of Smith 1 through 2011 was $171 million, and was used as the proxy for the total amount of investment, including contract cancellation costs. Salvage was determined at $20 million, thereby reducing the net amount to $151 million. Since EKPC cannot write off this amount to expense in one year without defaulting on its loan covenants, EKPC assumed that a regulatory asset was established in order to properly account for this situation. This regulatory asset was established assuming a 10 year recovery/amortization period.

Case 7 involved the sale of Smith 1 at book value to an independent power producer beginning in 2012. Smith 1 was removed from EKPC's books by reducing Construction Work in Progress (CWIP) and reducing the related debt.

Q. Can you explain more of how you handled the regulatory asset?

A. Yes. The regulatory asset was established by transferring the net CWIP balance ($171M less $20M salvage) of $151 million. As noted in the testimony of Mr. Mitchell, the most recent estimate of contract unwinding costs and asset disposal costs is $10M, which is $10M less than was used in the forecasting model. This reduction in estimate would not alter the outcome of the analysis. The related CWIP loan amounts were reduced and a new 10 year loan was created in order to finance the regulatory asset. The regulatory asset was amortized on a straight-line basis for 10 years and interest expense from the 10 year loan was charged to the statement of operations.

Q. What were the results from these cases?

A. Please refer to Exhibit GGS-1 and GGS-4. Case 1 assumed the initial Smith 1 investment to be $819 million, which is the most recent estimate prepared jointly by Stanley Consultants and EKPC. The Smith 1 investment cost increased 15% for Case 2 (2016) and a total of 24% for Case 3 (2018) over this base amount. Cases 1, 2, 3 ("Smith cases") were shown to be less costly as the in-service time was delayed from 2-years to 4-years. The extent of cost savings was $139M or 1.09%. The savings in member rates can be seen in the early years by the delayed investment, and then followed by slightly higher rates once the escalated investment cost was realized in rates. The present value effect valued the early-year savings as greater than the increased cost after in-service.

Q. How did the other cases compare and what were their results?

A. Cases 4 and 6 showed the greatest savings from the base case at $380M and $404M respectively, or 3.17% maximum savings. These cases involved a gas combined cycle and additionally a 5 yr purchase agreement for Case 6, instead of the Smith 1 investment. One key factor to these cases is the assumption that $906/kW (in 2010 dollars) is the combined cycle investment cost, which is one-third of Smith 1. The resulting cost to members starts lower and stays lower than the Smith cases for all 20 years.

Case 5 involved a portfolio of renewable energy, energy efficiency, and demand-side management (DSM) resources. The amount of DSM was increased in this case from 223 MW (base case) to 400 MW, along with known wind and biomass projects to fill the resources. These projects came in the form of purchases including any firm-up charges. Renewable energy credits were applied and transmission charges were included on all of these purchases, as with all purchases in all cases. Case 5 saved $78M over the base case or 0.61%.

Case 7 involved a long-term purchase and sale of Smith 1. The sale is a possible alternative to the need for a regulatory asset. This case showed a savings of $168M or 1.32%.

Q. Is there anything else about Case 5 that is unique?

A. Yes, Case 5 required an adjustment to billing units due to its increased DSM and energy efficiency. This increased DSM caused a shift in load and therefore recalculation and development of new billing units had to occur. This is the only case requiring such treatment.

Q. From your analysis, were you able to obtain an overall conclusion?

A. Yes. Exhibit GGS-1 summarizes the net present value of each case. Based on these results, Smith 1 is no longer the least cost option.

Q. Does this conclude your testimony?

A. Yes it does.

EXHIBIT D

TESTIMONY TRANSCRIPT OF ANTHONY S. CAMPBELL
CASE NO. 2010-00238

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF EAST KENTUCKY POWER COOPERATIVE, INC.'S NEED FOR THE SMITH 1 GENERATING FACILITY	)))	CASE NO. 2010-00238

TESTIMONY OF
ANTHONY S. CAMPBELL
PRESIDENT AND CHIEF EXECUTIVE OFFICER
EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: November 18, 2010

Q. Please state your name, business address and occupation.

A. My name is Anthony S. Campbell and my business address is East Kentucky Power Cooperative, Inc. (EKPC), 4775 Lexington Road, Winchester, Kentucky 40391. I am President and Chief Executive Officer.

Q. How long have you been employed by East Kentucky Power Cooperative, Inc. ("EKPC")?

A. I have been employed by EKPC since June 2009.

Q. Please state your education and professional experience.

A. I received a Bachelor of Science degree in electrical engineering from the Southern Illinois University at Carbondale and a Masters of Business Administration from the University of Illinois at Champaign. Prior to joining EKPC, I served as CEO of Citizens Electric Corporation, a transmission and distribution company located in southeast Missouri.

Q. Please provide a brief description of your duties at EKPC.

A. The Board of Directors has given me, as CEO, the responsibility for managing the Cooperative's business on a day-to-day basis. I carry out the Board's strategy within the guidelines and policies developed by the Board.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to introduce other witnesses providing testimony and to provide an overview of the results of EKPC's analysis.

Q. Please list EKPC's witnesses who will provide detailed testimony regarding the investigation of the Smith 1 generating facility.

A. (1) Mr. David K. Mitchell, Vice-President of Construction at EKPC, will discuss the Smith 1 cost estimate by major component and the operational and financial impacts of a hypothetical delay of the in-service date for Smith 1 of two years and four years. (2) Ms. Julia J. Tucker, Director of Power Supply Planning at EKPC, will discuss EKPC's most recent long-term load forecast and EKPC's existing generating capacity, provide information regarding peaks, capacity, sales and reserve requirements, discuss EKPC's efficiency and other demand-side management programs and their impacts, and discuss EKPC's production costing model. (3) Gary G. Stansberry, Manager of Performance Measures at EKPC, will discuss the financial results of each alternative scenario compared to Smith 1 as planned, provide revenue requirements of each scenario and the impact on member rates.

Q. What is the background of the Smith 1 Unit?

A. On August 29, 2006, in Case No. 2005-00053, the Commission granted EKPC a Certificate of Public Convenience and Necessity ("CPCN") to construct the 278 MW Smith Circulating Fluidized Bed Generating Unit ("Smith 1"). On January 5, 2007, in light of the decision by Warren Rural Electric Cooperative Corporation to terminate a power supply agreement with EKPC, the Commission investigated the continued need for Smith 1 (Case No. 2006-00564). After much discovery, on May 11, 2007, the Commission issued an Order allowing EKPC to retain the CPCN for Smith 1, as EKPC submitted evidence during the proceeding that showed: 1) that Smith 1 generation was still needed and 2) that Smith 1 was the least cost power supply alternative.

Q. Were there portions of the Commission's Order in Case No. 2006-00564 that were particularly compelling?

A. Yes. The Commission states on pages 9 and 10 of the Order: "With regard to the Smith No. 1 unit, there are two alternatives to consider. The Commission might order EKPC to purposefully delay the construction of Smith No. 1 to guarantee that its native load requirements are sufficient to support the addition of the generating unit. This course of action, however, would result in the levying of significant contractual penalties on EKPC and increase its exposure to escalating costs for labor and materials in the future. On the other hand the Commission might allow EKPC to proceed with construction of the Smith No. 1 unit and run the risk that EKPC's native load growth might not grow as quickly as forecasted—potentially resulting in EKPC having excess generation capacity. While neither situation is ideal, the latter position is clearly preferred under the specific facts of this case. In the long run, EKPC's ratepayers and the public interest at large will be best served by allowing EKPC to complete the construction of Smith No. 1 and avoid unnecessary penalties and cost escalations associated with a lengthy delay. Any risk of reaching a situation where EKPC has excess generation capacity should be mitigated by EKPC's careful development and implementation of a mechanism for making off-system sales. Accordingly, EKPC will be permitted to continue with the construction of the Smith No. 1 unit as originally certificated but should develop and implement an appropriate plan for facilitating off-system sales if the opportunity arises."

Q. Based on this Order, did EKPC continue its construction of Smith 1?

A. Yes. EKPC was concerned about the labor and materials escalations referenced in the Order and continued with construction.

Q. Has EKPC prudently incurred costs on Smith 1 to date?

A. Without question. EKPC's load forecasts in 2006 and 2008 supported the continued need for Smith 1, and Smith 1 was the least cost option. EKPC believes that all of the costs for Smith 1 to date were prudently incurred.

Q. Since the awarding of the certificates in the above-referenced proceedings, has EKPC conducted its own analyses relating to Smith 1 prior to the Commission's opening of this investigation?

A. Yes. EKPC has reviewed its assumptions relating to Smith 1 numerous times over the last few years to ensure Smith 1 was still the least cost option. Until recently, Smith 1 proved to be the least cost option to supply EKPC's power supply needs.

Q. Could you elaborate on what is meant by "until recently"?

A. The Commission's Order initiating the investigation into the need and cost of Smith 1 was coincident with EKPC's completion of its 2010 load forecast. As discussed in greater detail in Ms. Tucker's testimony, the 2010 load forecast showed a diminished load growth. The forecast indicates that base load generation is not needed until approximately 2018. As further discussed in the testimony of Mr. Stansberry, Smith 1 is no longer the least cost option compared to other power supply alternatives.

Q. What is the conclusion reached as a result of your recent analysis?

A. As stated above, the results of EKPC's load forecast do not support the immediate need for base load generation. Additionally, continuing to build Smith 1 will place an undue burden on EKPC from a long-term debt perspective, and will cause EKPC's rates to its members to increase substantially. EKPC's Board of Directors has concluded unanimously that, based upon the results of EKPC's analysis, it must voluntarily relinquish the CPCN for Smith 1.

Q. How are you proposing to treat the costs already incurred on building Smith 1?

A. Through a separate Application filed with the Commission, EKPC is requesting the Commission's approval to establish a regulatory asset. This Application contains the testimony of Mike McNalley, EKPC's Chief Financial Officer, who addresses this matter at length.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT E

SETTLEMENT AGREEMENT
CASE NO. 2010-00238

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") dated November 11, 2010, is by and between East Kentucky Power Cooperative Inc. ("EKPC"), Wendell Berry, Dr. John A. Patterson, M.D., MSPH, and Fr. John Rausch ("Retail Customers"), the Sierra Club, Kentuckians for the Commonwealth, and Kentucky Environmental Foundation ("Environmental Groups"), Gallatin Steel Company ("Gallatin"), and the Kentucky Attorney General ("Attorney General"), collectively the "Parties".

WHEREAS, EKPC currently holds a Certificate of Public Convenience and Necessity ("CPCN") authorizing it to construct a 278 MW Circulating Fluidized Bed coal-fired generating facility at the J.K. Smith site located at Trapp, Clark County, Kentucky ("Smith 1 CFB")[1]; and,

WHEREAS, EKPC has obtained a lien accommodation from the United States Department of Agriculture, Rural Utilities Service ("RUS") to permit EKPC to obtain private financing to construct Smith 1 CFB, and has obtained a combined Title V / Prevention of Significant Deterioration Air Quality Permit from the Kentucky Energy and Environmental Cabinet.[2] EKPC is working vigorously to obtain all other necessary permits including a Section 404 permit from the U.S. Army Corps of Engineers and a Section 401 Water Quality Certification from the Kentucky Division of Water; and,

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[1] The CPCN for construction of Smith 1 CFB was granted by Order of the Kentucky Public Service Commission on August 29, 2006 in Case No. 2005-00053; and, was reaffirmed by subsequent Order of the KPSC on May 11, 2007 in Case No. 2006-00564.

[2] The Environmental Groups have challenged the issuance of this permit in *Sierra Club, Kentucky Environmental Foundation and Kentuckians for the Commonwealth vs. Energy and Environmental Cabinet, Division for Air Quality, and East Kentucky Power Cooperative, Inc., Energy and Environment Cabinet File No. DAQ-41109-048 (Petition filed May 7, 2010)* and by filing a petition for objection with the United States Environmental Protection Agency.

WHEREAS, Retail Customers and Environmental Groups oppose Smith 1 CFB principally because of their concern regarding the environmental and economic impacts resulting from construction and operation of the plant[3]; and,

WHEREAS, Gallatin, as a retail customer of Owen Electric Cooperative, Inc., has an interest in the construction of Smith 1 CFB by virtue of being the largest electric consumer on EKPC's system; and,

WHEREAS, the Attorney General is authorized by virtue of KRS 367.150(8) to appear as the advocate representing all of Kentucky's utility consumers, including those retail customers of EKPC's 16 Member Systems; and,

WHEREAS, the Kentucky Public Service Commission ("KPSC") initiated an investigation, pursuant to KRS 278.260, of EKPC's continued need for Smith 1 CFB and summarized as those issues which warranted the investigation: (a) EKPC's current projected need for additional baseload generating capacity; (b) whether or not Smith 1 CFB remains the least costly option available to meet EKPC's need for additional baseload capacity; and (c) the impact on EKPC's financial integrity and its future electric rates from either constructing Smith 1 CFB or pursuing an alternative option if additional baseload capacity is needed.[4] Constructing Smith 1 CFB or pursuing an alternative option if additional baseload capacity is needed impacts EKPC's financial ability to maintain its on-going operations; and,

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[3] Retail Customers and Environmental Groups lodged a Complaint against EKPC at the Kentucky Public Service Commission pursuant to KRS 278.260 and 278.280(1) challenging the continued need for Smith 1 CFB and whether construction of the plant was the "least cost" option. This Complaint became Case No. 2009-00426. By Order dated December 22, 2009, the Retail Customers were permitted to maintain their Complaint but the Environmental Groups were dismissed due to lack of standing. Subsequently, the Retail Customers' Complaint was consolidated into Case No. 2010-00238.

[4] Order, June 22, 2010, pp. 5-6, KPSC Case No. 2010-00238.

WHEREAS, all of the Parties to this Agreement are aware of the long-lasting effect and importance that the decision regarding construction of Smith 1 CFB will have on EKPC, its 16 Member Systems, those Systems' Member-Ratepayers, as well as on Kentucky's economy and environment; and,

WHEREAS, there are many other issues of great importance to EKPC and its Member Systems, which are not included in Case No. 2010-00238, but which must be addressed immediately, including: (a) the need to obtain PSC approval of a Regulatory Asset for EKPC's sunk costs for Smith 1 CFB in the event the plant is not constructed; (b) the viability of alternative sources of baseload capacity for EKPC as its future needs for such capacity dictate; and (c) the numerous administrative and legal challenges which EKPC currently faces from the Retail Customers and/or Environmental Groups related to its existing coal-fired generation units; and,

WHEREAS, the Parties have engaged in good faith discussions and have reached a mutually-agreeable resolution of these issues which they desire be memorialized as follows:

NOW, THEREFORE, in consideration of these discussions and each party's respective positions on these issues, and each party's desire to conclude an amicable resolution of their differences thereby avoiding the expenditure of substantial resources for litigation of the disputes arising from these issues, and other good and valuable consideration flowing between and among them, the Parties to this Settlement Agreement, individually and collectively, do hereby agree as follows:

I. SMITH I CFB

Within ten business days following the final execution of this Agreement, EKPC shall:

(1) formally notify the KPSC of its intention to abandon the construction of Smith 1 CFB and to surrender the CPCN granted in Case No. 2005-00053; (2) submit an application for a permit amendment or modification to the Energy and Environment Cabinet requesting that Emission Units 11, 12, 13, 14, 15, 16a, 16b, 17, 18, and 19 be removed from Permit V-05-070 R3; and (3) formally notify the US Army Corps of Engineers that it is withdrawing its application submitted for a Department of the Army (DA) Permit, subject to Section 10 of the Rivers and Harbors Act and Section 404 of the Clean Water Act which was noticed in Public Notice No. LRL-2008-445-mdh.

EKPC shall provide counsel for Environmental Groups and Retail Customers with copies of items (1) – (3) at the same time that EKPC sends the items to the relevant agencies. In addition, EKPC agrees that upon making the filings referenced in I(1), I(2) and I(3) above, that it will not withdraw these submissions and will vigorously pursue the actions requested therein.

II. <u>REGULATORY ASSET</u>

Coincident with EKPC's notice to the KPSC of its intention to abandon the construction of Smith 1 CFB and to surrender the CPCN granted by the KPSC, EKPC shall file an application, pursuant to KPSC's authority to regulate utilities under KRS 278.040 and its authority to establish a system of accounts under KRS 278.220, before the KPSC requesting that a Regulatory Asset be approved allowing EKPC to recover its costs and other expenses reasonably incurred to date for the Smith 1 CFB project. EKPC shall be required to take reasonable action to mitigate and offset such costs and expenses to the extent possible.

Neither the Retail Customers nor the Environmental Groups will object or oppose in any fashion before the KPSC or any court EKPC's Regulatory Asset application. Retail Customers and the Environmental Groups assume that EKPC will make a good faith effort to reasonably maximize the mitigation and offset of costs and expenses as required above and Retail Customers and Environmental Groups take no position on the information and issues addressed in the following paragraph.

Neither Gallatin nor the Attorney General will object to that portion of EKPC's application that requests establishment of the Regulatory Asset which both believe is necessary to ensure the Company's on-going operations. At the time that the original CPCN for Smith 1 CFB was sought by EKPC[5] it relied on its 2004 load forecast which showed 2003 retail energy sales and 2024 projected retail energy sales by class in MWh as set forth in Appendix "A," attached.

The construction of Smith 1 CFB was not primarily planned to serve Gallatin's load. The appropriate allocation of cost to Gallatin and the other rate classes is based upon the firm demand of each rate class including Gallatin. Moreover, because of the nature of the proposed Regulatory Asset, the desire to lessen the rate shock to consumers of placing the Regulatory Asset into rates, and the financial ability of EKPC to do so, the Attorney General, Gallatin and EKPC agree that they will fully support before the Kentucky PSC an allocation methodology over the life of the amortization period based upon the firm demand of each rate class including Gallatin Steel as set forth in Appendix "B", attached, and that an amortization period of ten years for recovery of the Regulatory Asset is appropriate. The levelized costs of the Regulatory Asset will be recovered in base rates and recovery will terminate when the cost of the Regulatory Asset is fully recovered. To avoid double recovery, all Smith I costs currently being recovered in existing rates and all Smith I costs proposed to be recovered in future rates will be removed from

[5] Case No. 2005-00053.

base rates or identified and excluded from recovery of the Regulatory Asset in EKPC's filing for recovery of the Regulatory Asset.

III. PENDING ADMINISTRATIVE AND COURT ACTIONS

The Environmental Groups currently have several state and federal administrative and court actions pending against EKPC listed below which shall be dismissed with prejudice. Within ten business days following the Environmental Groups receipt of all the items included in Section I(1), I(2) and I(3), the Environmental Groups shall file all pleadings and notices necessary to dismiss, with prejudice, with each side to bear its own costs of litigation, the following matters:

Spurlock

A. *Sierra Club vs. EKPC, Case No. 5:09-CV-144, (E.D. KY) (Complaint filed April 21, 2009).*

B. *Sierra Club's Notice of Intent to Sue EPA, letter from David C. Bender, McGillivray, Westerberg & Bender LLC, counsel for Sierra Club (March 15, 2010).*

C. *Sierra Club's Petition Requesting that the Administrator Object to Permit No. V-06-007 Revision 3 from Robert Ukeiley, counsel for Sierra Club (April 6, 2010).*

D. *Sierra Club's Petition Requesting that the Administrator Object to Permit # V-06-007 Revision 4[6] from David C. Bender, McGillivray, Westerberg & Bender LLC, counsel for Sierra Club (June 22, 2010).*

E. *Sierra Club's Notice of Intent to Sue EPA, letter from David C. Bender, McGillivray, Westerberg & Bender LLC, counsel for Sierra Club (September 8, 2010).*

Smith

A. *Sierra Club, Kentucky Environmental Foundation and Kentuckians for the Commonwealth's Petition Requesting that the Administrator Object to Permit No. V-*

[6] Petition references Permit # V-06-007 Revision 4. However, Petition actually relates to V-06-007 Revision 3.

05-070 Revision 3 from Robert Ukeiley and Kristin Henry, counsel for the Sierra Club (July 22, 2010).[7]

B Sierra ***Club, Kentucky Environmental Foundation and Kentuckians for the Commonwealth vs. Energy and Environmental Cabinet, Division for Air Quality, and East Kentucky Power Cooperative, Inc., Energy and Environment Cabinet File No. DAQ-41109-048 (Petition filed May 7, 2010).***

C. ***Sierra Club and Kentuckians for the Commonwealth vs. U.S. Rural Utilities Service; Thomas J. Vilsack, in his official capacity as Secretary of the U.S. Department of Agriculture; and Jonathan S. Adelstein, in his official capacity as Administrator or the U.S. Rural Utilities Service; Case No. 1:10-CV-01010 HHK, United States District Court for the District of Columbia***. However, regardless of any other provision in the agreement, dismissal of Plaintiffs' facial challenge to 7 C.F.R. § 1794.3 shall be without prejudice.

In addition, the Retail Customers and Environmental Groups shall not in the future file any administrative or court action which would have the effect of reviving or reinstituting any state or federal, administrative or court proceeding which was previously dismissed or finally adjudged as a result of the operation of this Agreement. If a party believes that this agreement may have been breached, the aggrieved party must provide written notice of any alleged breach and give the party an opportunity to cure. In the event of a breach, remedy is limited to specific performance. Under no circumstances will monetary damages be available for breach.

IV. FUTURE EKPC BASELOAD OR INTERMEDIATE LOAD GENERATING UNITS

Nothing in this Agreement shall in any way affect EKPC's ability in the future to seek approval from the KPSC and other necessary administrative and regulatory agencies to construct either baseload, intermediate-load or peak-load generating units regardless of fuel type as EKPC's capacity needs require except EKPC will not seek KPSC and other necessary

[7] EPA formally objected to the proposed permit on the issue on May 24, 2010. DAQ issued a revised proposed permit on August 20, 2010 to address EPA's objection. Retail Customers and Environmental Groups agree not to refile the same petition based on the revised proposed permit of August 20, 2010.

administrative and regulatory agency approvals for a coal-fired generating unit within two years of the date this agreement is executed.

V. COLLABORATIVE TO ADDRESS EKPC'S ENERGY DIVERSIFICATION PORTFOLIO

The Parties to this Agreement agree that EKPC will initiate a "Collaborative" among EKPC, each of the Environmental Groups, Gallatin, the Attorney General, each of EKPC's Member Systems, and other organizations or entities representing relevant and appropriate interests. EKPC agrees to chair the Collaborative with one representative from the Environmental Groups acting as vice-chair. The purpose of the Collaborative shall be to evaluate and recommend actions to expand deployment of renewable energy and demand-side management, and to promote collaboration among the Parties in the implementation of those ideas. EKPC shall undertake the appropriate studies (subject to the $100,000 total referenced below), as agreed upon by the Collaborative, in order to evaluate potential sources of renewable energy for use on EKPC's system along with demand side management options, and determine which would be commercially applicable, financially beneficial and viable for EKPC's customers. EKPC agrees to fund Collaborative reasonable administrative costs up to $25,000 and, subject to Commission authorization up to a total of $100,000, on studies of available wind resources at 100 meters and above in Kentucky or other sources of viable renewable power not including landfill gas. EKPC agrees to draft a charter for the Collaborative consistent with applicable KPSC regulation and policy. The Collaborative shall convene no later than 60 days after this agreement takes effect, and shall meet at least quarterly for 2 years, at which time it may be renewed by agreement of the Parties. The Collaborative will operate by consensus. Meetings of the Collaborative shall be open to the public

VI. PARTIES TO BE BOUND

All of the Parties to this Agreement shall be bound by its terms and conditions. In addition, each individual organization comprising the Environmental Groups shall not provide funding to any individual, whether or not such individual is a member of that organization, for the bringing of any administrative or court action which would revive or reinstitute any state or federal administrative or court proceeding which was previously dismissed or finally adjudged as a result of the operation of this Agreement.

VII. CHOICE OF LAW AND VENUE

The laws of the Commonwealth of Kentucky shall govern the execution, interpretation and operation of this Agreement. Any subsequent action that may be necessary to settle any dispute arising under this Agreement or to enforce any of its provisions, including any breach thereof, shall be initiated in and processed under the laws and courts of the Commonwealth of Kentucky. In such event, the Parties further agree that the appropriate venue for addressing any such issue which might arise shall be Franklin County, Kentucky.

VIII. CONFIDENTIALITY

The Parties to this Agreement affirm that this document is the product of settlement discussions and negotiations. All data, analyses, documents (but not including the final version of this Agreement) or other materials of any kind (verbal or written) are confidential pursuant to the terms and conditions of the Confidentiality Agreement executed by the Parties.

IX. SEVERABILITY

If any provision of this Agreement or its application will be invalid, illegal or unenforceable in any respect except Section I, the validity, legality and enforceability of all other applications of that provision, and of all other provisions and applications hereof, will not in any way be affected or impaired. If any part of Section I or its application is invalid, illegal or unenforceable in any respect, then the obligations of all Parties under Section III are void. If any court shall determine that any provision of this Agreement is in any way unenforceable except Section I, the remainder of the Agreement shall remain in full force and effect. If the KPSC fails to fully approve any provision of this Agreement which relates to rates or ratemaking, then neither EKPC, Gallatin, nor the Attorney General will be bound by this Agreement except Section I.

Executed this 17 day of November, 2010.

EAST KENTUCKY POWER COOPERATIVE, INC.

By: Anthony S Campbell

Title: Pres./CEO

Wendell E. Berry

WENDELL BERRY

JOHN A. PATTERSON, M.D., MSPH

John S. Rausch

FR. JOHN RAUSCH

THE SIERRA CLUB

By: Kristin A. Henry

Title: Staff Attorney

KENTUCKIANS FOR THE COMMONWEALTH

By: Stephen S. Boyce

Title: Chair

KENTUCKY ENVIRONMENTAL FOUNDATION

By: Elizabeth Crowe

Title: Executive Director

GALLATIN STEEL COMPANY

By: Michael P. Kurt

Title: Counsel

KENTUCKY ATTORNEY GENERAL

By: ________________

Title: Acting Director, Office of Rate Intervention

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APPENDIX "A"

YEAR	RESIDENTIAL	SEASONAL	SMALL COMM'L	PUBLIC BLDGS.	LARGE COMM'L	GALLATIN
2003	6,156,774	15,487	1,581,188	42,689	1,906,861	1,007,676
2024	13,194,533	30,814	3,314,701	71,684	4,740,172	959,015
PERCENT INCREASE 2003-2024	114.3%	99%	109.6%	68%	148.6%	(4.85%)

APPENDIX "B"

Firm Demand by Rate Class					
			Firm Demand (MW)		% of Total Firm Demand
Rate E					
Option 1 (Owen)			2,305		8.32%
Option 2			22,170		79.99%
Rate B					
Minimum			1,349		4.87%
Excess			167		0.60%
Rate C			502		1.81%
Rate G			552		1.99%
Large Special Contract					
Firm Demand			180		0.65%
Steam Service (equivalent MW)			492		1.78%
			27,717		100.00%
*Firm demand was based upon a modified version of the 2008 load forecast, consistent with					
the demand levels used in Case No. 2010-00167.					

EXHIBIT F

TESTIMONY OF MIKE MCNALLEY IN SUPPORT OF APPLICATION FOR REGULATORY ASSET

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY	)	
POWER COOPERATIVE, INC. FOR AN ORDER	)	
APPROVING THE ESTABLISHMENT OF A	)	CASE NO. 2010-_____
REGULATORY ASSET FOR THE AMOUNT	)	
EXPENDED ON ITS SMITH 1 GENERATING UNIT	)	

DIRECT TESTIMONY OF
MIKE MCNALLEY
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: November 18, 2010

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR AN ORDER APPROVING THE ESTABLISHMENT OF A REGULATORY ASSET FOR THE AMOUNT EXPENDED ON ITS SMITH 1 GENERATING UNIT	)))))	**CASE NO. 2010-_____**

DIRECT TESTIMONY OF
MIKE MCNALLEY
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Q. Please state your name, business address and occupation.

A. My name is Mike McNalley and my business address is East Kentucky Power Cooperative ("EKPC"), 4775 Lexington Road, Winchester, Kentucky 40391. I am Chief Financial Officer for EKPC.

Q. How long have you been employed by EKPC?

A. I have been employed by EKPC since July 2010.

Q. Please state your education and professional experience.

A. I obtained my undergraduate degree in economics from Reed College in Portland, Oregon and my Master's of Business Administration from Dartmouth College. Prior to joining EKPC, I held various positions with DTE Energy ("DTE"), including chief financial officer and chief operating officer of one of DTE's subsidiaries, DTE Energy Technologies. Prior to joining DTE, I worked as the corporate leader of finance or as a senior executive at various companies including Corrillian Corp., System2, Inc., and Oliver & Thompson, Inc., all located in Portland, Oregon.

Q. Please provide a brief description of your duties at EKPC.

A. I am responsible for accounting, finance, performance measures, pricing, and regulatory services at EKPC.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support EKPC's need for a regulatory asset as a result of the cancellation of Smith 1. I will also discuss the proposed amount of the regulatory asset, as well as the timing for rate recovery.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring Exhibit MM-1, which contains the Smith 1 project balance information as of September 30, 2010.

Q. How much has EKPC spent on Smith 1 to date?

A. As reflected in Exhibit MM-1, EKPC has spent $153.4 million to date on Smith 1.

Q. Does EKPC plan to incur costs above this amount?

A. Yes. EKPC anticipates that it will incur approximately $10 million in contract unwinding costs and asset disposal costs.

Q. Did EKPC prudently incur these costs?

A. Yes. These costs were incurred in conjunction with the construction of an asset previously authorized by the Commission. In 2006, when the initial Certificate of Public Convenience and Necessity ("CPCN") was awarded (Case No. 2005-00053), the construction of Smith 1 was the least cost alternative. The Commission also reviewed the need for Smith 1 in 2007 (Case No. 2006-00564) and found it reasonable for EKPC to continue with construction. Since 2006, EKPC has periodically evaluated Smith 1 and it continued to be the least cost alternative to meet EKPC's power supply needs. However, as a result of the analysis directed by the Commission in this proceeding and incorporating the results of EKPC's 2010 load forecast, Smith 1 is no longer the least cost alternative. In addition, the results of the 2010 load forecast do not support an immediate need for base load generation. Therefore, it is prudent for EKPC to stop construction, relinquish its CPCN for Smith 1, and contend with the accounting and financial results of that decision.

Q. What does the relinquishment of the Smith 1 CPCN mean for EKPC from an accounting and financial standpoint?

A. The relinquishment of the CPCN requires EKPC to evaluate the appropriate accounting treatment. Specifically, EKPC will follow the guidance prescribed in Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" and SFAS 90, "Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs."

Q. Can EKPC absorb an immediate expense write-off of Smith 1 without negative financial repercussions?

A. No. As of September 30, 2010, EKPC's equity is $252.5 million. Existing loan covenants require EKPC to maintain at least $200 million of equity at the end of each calendar quarter. In addition, EKPC is required to maintain an equity to asset ratio of 5% or more at the end of each calendar quarter. A write-off of the $153.4 million investment would place EKPC in violation of loan covenants. The lenders in EKPC's unsecured credit facility likely would declare EKPC in default of its loan agreements and demand immediate repayment of the outstanding balance on the $450 million unsecured loan.

Q. Can EKPC immediately repay that unsecured loan?

A No. EKPC has neither sufficient cash nor available credit to make such a repayment.

Q. What are the implications of not making repayment if demanded?

A. Actions by those lenders to obtain repayment could cause EKPC's secured lenders also to demand repayment. Although EKPC would do everything possible to remain viable, this could lead to litigation, potentially resulting in seizure of EKPC assets, an involuntary bankruptcy petition, or a voluntary bankruptcy petition.

Q. How does EKPC plan to handle these expenses triggered by the relinquishment of the CPCN for Smith 1?

A. As mentioned above, EKPC cannot absorb an expense write-off of this magnitude. Therefore, EKPC is requesting Commission approval for the establishment of a regulatory asset.

Q. Why does EKPC believe this situation meets the requirements for establishing a regulatory asset?

A. As clearly stated on page 4 of the Commission's Order in Case No. 2008-00436, "the Commission has exercised its discretion to approve regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have been reasonably anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost." EKPC's situation meets criterion (1), because the extraordinary additional expense caused by the write-off of the Smith 1 investment could not have been reasonably anticipated or included in EKPC's planning, and criterion (4), because the 20-year net present value of the revenue requirements shows that the construction of Smith 1 is no longer the least cost power supply option when compared to other power supply alternatives; thus, cancellation even with full recovery of costs incurred to date is lower cost than completing construction.

Q. In what amount is EKPC requesting a regulatory asset?

A. At this time EKPC is proposing the establishment of a regulatory asset in the amount of $163,448,904, which includes the current investment, plus an estimate for contract unwinding costs and asset disposal costs.

Q. Will this be the final amount of the proposed regulatory asset?

A. No. Contract unwinding costs and asset disposal costs must be finalized. Additionally, EKPC will determine which components of Smith 1, if any, are usable in inventory or capital spares on its other circulating fluidized bed units. EKPC will then determine if remaining parts have a resale market either domestically or internationally. Lastly, EKPC will consider salvaging or scrapping any remaining materials. EKPC's effort will be to maximize recovery of the investment, thereby minimizing the final regulatory asset amount.

Q. How is EKPC treating any Allowance for Funds Used During Construction ("AFUDC") that has accumulated on the project?

A. The Smith 1 project costs contain $1.4 million of AFUDC. EKPC will exclude this amount from the regulatory asset request.

Q. When does EKPC need Commission approval of the request to establish a regulatory asset?

A. EKPC would like to have the Commission's approval by December 31, 2010. If that requested timing is not possible, then EKPC needs Commission approval no later than mid-February 2011, the end of external audit fieldwork, to ensure that a write-off to expense is not required in the 2010 year-end audited financial statements.

Q. Will EKPC be able to meet its loan covenants in 2010 without the establishment of a regulatory asset?

A. No. As of September 30, 2010, EKPC's equity is $252.5 million. An expense write-off of the Smith 1 costs would place EKPC in violation of loan covenants and likely cause the lenders in EKPC's unsecured credit facility to demand immediate repayment.

Q. Has EKPC discussed this situation with its external auditors?

A. Yes. EKPC is having ongoing discussions with Deloitte & Touche LLP, EKPC's external auditors.

Q. In seeking approval to establish a regulatory asset for the Smith Unit 1 costs, is EKPC also seeking authorization to begin amortization of the regulatory asset?

A. Not at this time. EKPC is only seeking approval to establish the regulatory asset. Final contract unwinding costs, asset disposal costs, and the results of mitigation efforts are unknown at this time. EKPC intends to reduce the regulatory asset balance to the lowest possible level, before requesting amortization and recovery of the regulatory asset in rates.

Q. When does EKPC anticipate requesting to begin amortization of the regulatory asset and seeking rate recovery of the amortization expense?

A. As soon as possible, because recovery assurance is a necessary component of the accounting treatment. In other words, if recovery is assured there is no basis for a write-off; however, if recovery is uncertain, some or all of the Smith 1 balance may still have to be written off even with authorization to record a regulatory asset.

Q. Are there other costs associated with EKPC relinquishing the CPCN that are not included in the regulatory asset?

A. Yes. EKPC will have to secure permanent financing for those assets that have not been eliminated from the regulatory asset through the mitigation process. This financing has not yet been secured, and EKPC acknowledges that this financing will be subject to Commission approval. Upon Commission approval of the permanent financing, EKPC will need to be able to recover the interest expense associated with this financing. EKPC has included a certain level of interest expense relating to Smith 1 in Case No. 2010-00167. EKPC understands that, if interest expense recovery is allowed in Case No. 2010-00167, then recovery of interest expense through the regulatory asset amortization will not be needed.

Q. Why will EKPC need to recover the regulatory asset and the interest on long-term debt associated with the regulatory asset?

A. EKPC is aware that in previous cases involving investor-owned utilities, the Commission has not allowed for the recovery of carrying costs from ratepayers, but instead has required the shareholders of these utilities to bear these costs. EKPC is a not-for-profit member-owned cooperative; the member-owners of EKPC are, in turn, not-for-profit member-owned cooperatives. Unlike the situations the Commission has addressed in previous regulatory asset cases, there are no shareholders available to bear any of the costs associated with the regulatory asset amortization and interest expense on long-term debt. In order to maintain EKPC's financial integrity, recovery of both the amortization expense of the regulatory asset and any interest expense on long-term debt associated with the regulatory asset will have to be recovered from ratepayers. EKPC reiterates that if interest expense recovery is allowed in Case No. 2010-00167, then recovery of interest expense through the regulatory asset amortization will not be needed.

Q. Does this conclude your testimony?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

AN APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR AN ORDER APPROVING THE ESTABLISHMENT OF A REGULATORY ASSET FOR THE AMOUNT EXPENDED ON ITS SMITH 1 GENERATING UNIT	**)**	**CASE NO. 2010-______**

AFFIDAVIT

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Michael A. McNalley, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

____

Subscribed and sworn before me on this 18th day of November, 2010.

____
Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352

Account	Bdgt Cd	Project	Descr	Balance as of 9/30/2010
107200	1000	SM100	Smith #1_EKP Labor & Expenses	14,975.00
107200	1400	SM100	Smith #1_EKP Labor & Expenses	2,685.95
107200	1800	SM100	Smith #1_EKP Labor & Expenses	7,341.37
107200	2200	SM100	Smith #1_EKP Labor & Expenses	6,816.38
107200	4801	SM100	Smith #1_EKP Labor & Expenses	591,217.23
107200	7400	SM100	Smith #1_EKP Labor & Expenses	121,811.57
107200	9000	SM100	Smith #1_EKP Labor & Expenses	101,655.43
107200	9100	SM100	Smith #1_EKP Labor & Expenses	186,552.07
		SM100 Total		1,033,055.00
107200	4801	SM101	Smith #1_Stanley-Engineering	7,795,142.49
107200	7400	SM101	Smith #1_Stanley-Engineering	236,999.48
		SM101 Total		8,032,141.97
107200	1000	SM102	Smith #1_Site Prep	267.49
107200	1800	SM102	Smith #1_Site Prep	80.41
107200	2200	SM102	Smith #1_Site Prep	7.96
107200	4801	SM102	Smith #1_Site Prep	692,515.77
107200	7400	SM102	Smith #1_Site Prep	102,729.87
107200	9000	SM102	Smith #1_Site Prep	346,109.38
		SM102 Total		1,141,710.88
107200	4801	SM103	Smith #1_GE-Turbine/Generator	510,000.00
107200	7400	SM103	Smith #1_GE-Turbine/Generator	775,352.95
107200	9000	SM103	Smith #1_GE-Turbine/Generator	26,838,225.04
		SM103 Total		28,123,577.99
107200	7400	SM104	Smith #1_Boiler_Alstom	367,400.52
107200	9000	SM104	Smith #1_Boiler_Alstom	99,975,348.91
107200	9100	SM104	Smith #1_Boiler_Alstom	138,254.79
		SM104 Total		100,481,004.22
107200	7400	SM105	Smith #1_Alloy Piping-Bend Tec	21,414.48
107200	9000	SM105	Smith #1_Alloy Piping-Bend Tec	3,216,231.30
		SM105 Total		3,237,645.78
107200	1000	SM106	Smith #1_Environmental	86,835.51
107200	1400	SM106	Smith #1_Environmental	6,255.13
107200	1800	SM106	Smith #1_Environmental	37,629.91
107200	2200	SM106	Smith #1_Environmental	3,928.39
107200	4801	SM106	Smith #1_Environmental	1,208,511.94
921000	4802	SM106	Smith #1_Environmental	22,304.20
107200	7400	SM106	Smith #1_Environmental	9,567.57
		SM106 Total		1,375,032.65
107200	9000	SM107	Smith #1_Boiler Feed Pumps	2,962,371.00
		SM107 Total		2,962,371.00
107200	9000	SM110	Smith #1_Feedwater Heaters	1,684,665.00
		SM110 Total		1,684,665.00
107200	7400	SM112	Smith #1_Condenser	2,997.27
107200	9000	SM112	Smith #1_Condenser	2,661,835.00
		SM112 Total		2,664,832.27
107200	9000	SM135	Smith #1_Equipment Whse	2,645,321.10
		SM135 Total		2,645,321.10
107200	7400	SM136	Smith #1_Addt'l Land	46.00
107200	9200	SM136	Smith #1_Addt'l Land	67,500.00
		SM136 Total		67,546.00
		Grand Total		153,448,903.86

EXHIBIT G

SUMMARY OF SMITH 1 COSTS TO SEPTEMBER 30, 2010 INCLUDING ESTIMATED CONTRACT UNWINDING COSTS AND ASSET DISPOSAL COSTS

Account	Bdgt Cd	Project	Descr	Balance as of 9/30/2010	Exhibit G
107200	1000	SM100	Smith #1_EKP Labor & Expenses	$ 14,975	
107200	1400	SM100	Smith #1_EKP Labor & Expenses	2,686	
107200	1800	SM100	Smith #1_EKP Labor & Expenses	7,341	
107200	2200	SM100	Smith #1_EKP Labor & Expenses	6,816	
107200	4801	SM100	Smith #1_EKP Labor & Expenses	591,217	
107200	7400	SM100	Smith #1_EKP Labor & Expenses	121,812	
107200	9000	SM100	Smith #1_EKP Labor & Expenses	101,655	
107200	9100	SM100	Smith #1_EKP Labor & Expenses	186,552	
		SM100 Total		1,033,055	
107200	4801	SM101	Smith #1_Stanley-Engineering	7,795,142	
107200	7400	SM101	Smith #1_Stanley-Engineering	236,999	
		SM101 Total		8,032,142	
107200	1000	SM102	Smith #1_Site Prep	267	
107200	1800	SM102	Smith #1_Site Prep	80	
107200	2200	SM102	Smith #1_Site Prep	8	
107200	4801	SM102	Smith #1_Site Prep	692,516	
107200	7400	SM102	Smith #1_Site Prep	102,730	
107200	9000	SM102	Smith #1_Site Prep	346,109	
		SM102 Total		1,141,711	
107200	4801	SM103	Smith #1_GE-Turbine/Generator	510,000	
107200	7400	SM103	Smith #1_GE-Turbine/Generator	775,353	
107200	9000	SM103	Smith #1_GE-Turbine/Generator	26,838,225	
		SM103 Total		28,123,578	
107200	7400	SM104	Smith #1_Boiler_Alstom	367,401	
107200	9000	SM104	Smith #1_Boiler_Alstom	99,975,349	
107200	9100	SM104	Smith #1_Boiler_Alstom	138,255	
		SM104 Total		100,481,004	
107200	7400	SM105	Smith #1_Alloy Piping-Bend Tec	21,414	
107200	9000	SM105	Smith #1_Alloy Piping-Bend Tec	3,216,231	
		SM105 Total		3,237,646	
107200	1000	SM106	Smith #1_Environmental	86,836	
107200	1400	SM106	Smith #1_Environmental	6,255	
107200	1800	SM106	Smith #1_Environmental	37,630	
107200	2200	SM106	Smith #1_Environmental	3,928	
107200	4801	SM106	Smith #1_Environmental	1,208,512	
921000	4802	SM106	Smith #1_Environmental	22,304	
107200	7400	SM106	Smith #1_Environmental	9,568	
		SM106 Total		1,375,033	
107200	9000	SM107	Smith #1_Boiler Feed Pumps	2,962,371	
		SM107 Total		2,962,371	
107200	9000	SM110	Smith #1_Feedwater Heaters	1,684,665	
		SM110 Total		1,684,665	
107200	7400	SM112	Smith #1_Condenser	2,997	
107200	9000	SM112	Smith #1_Condenser	2,661,835	
		SM112 Total		2,664,832	
107200	9000	SM135	Smith #1_Equipment Whse	2,645,321	
		SM135 Total		2,645,321	
107200	7400	SM136	Smith #1_Addt'l Land	46	
107200	9200	SM136	Smith #1_Addt'l Land	67,500	
		SM136 Total		67,546	
		Total Expended as of 9/30/10		153,448,904	
Estimated Contract Unwinding Costs and Asset Disposal Costs				10,000,000	
Total Estimated Expenditures				$ 163,448,904	