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June 29, 2016

**PARTIES OF RECORD**

Re: Case No. 2015-00358

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter.

If you have any questions, please contact Quang Nguyen, Commission Staff Attorney, at 502-782-2586.

Sincerely,

A handwritten signature in blue ink that reads "Aaron D. Greenwell".

Aaron D. Greenwell  
Acting Executive Director


QN/ph

Attachments

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File

**FROM:** Quang D. Nguyen, Staff Attorney 

**DATE:** June 29, 2016

**RE:** Case No. 2015-00358  
Application of East Kentucky Power Cooperative, Inc. for Deviation from  
Obligation Resulting from Case No. 2012-00169

Pursuant to the Commission Staff's Notice of June 16, 2016, an informal conference was held on June 24, 2016, at the Commission's offices in Frankfort, Kentucky. The purpose of the informal conference was to discuss East Kentucky Power Cooperative, Inc.'s ("EKPC") amended application for approval of a capacity market benefit sharing mechanism, which was filed on June 22, 2016. A list of the attendees is attached hereto.

EKPC provided a general overview of the case status, describing how EKPC and the parties to this matter arrived at the proposed capacity market benefit sharing mechanism. EKPC then provided a detailed explanation of the proposed mechanism, indicating that the methodology addresses the unamortized costs associated with Smith Unit 1 as well as the sharing of the PJM capacity market benefits. EKPC provided information on the current Smith Unit 1 unamortized cost and its mitigation and salvage efforts to reduce the total amount of the Smith Unit 1 regulatory asset. EKPC also provided information on the projected PJM capacity market benefits for the PJM Delivery Years of 2016/2017, 2017/2018, and 2018/2019. EKPC also noted that the capacity market benefits could be impacted by any penalties that might be assessed under PJM's new Capacity Performance construct and amounts associated with mitigation insurance premiums as well as mitigation insurance deductibles, if any.

After a discussion of the accounting treatments in connection with the mechanism, EKPC stated that the proposed mechanism would be implemented as part of EKPC's next base rate application in which EKPC would request that its rates be adjusted to reflect the amortization expense of the Smith Unit 1 regulatory asset. This amortization adjustment would be spread over the remaining months of the 10-year amortization period, which would have begun on January 1, 2017. The amortization adjustment would also be based on the Smith Unit 1 regulatory asset balance as of January 1, 2017, reduced by (i) the actual results of the Smith Unit 1 mitigation and salvage efforts and (ii) the net PJM capacity market benefit earned by EKPC beginning with the 2016/2017 PJM Delivery Year and concluding either at the end of the test year

to be used in the rate application or the end of calendar year 2019. With the proposed implementation of the capacity market benefit sharing mechanism, EKPC advised that the proposed treatment for the Smith Unit 1 regulatory asset will eliminate the need for the specific identification of the Smith Unit 1 interest expense and EKPC will include this expense as part of the cost of service to be recovered along with other interest expense. Lastly, EKPC stated that it has agreed to provide Nucor a temporary monthly bill credit in the amount of \$35,000. EKPC noted that the bill credit will begin upon approval in this matter and will terminate as of the effective date for new rates resulting from EKPC's next general base rate proceeding. EKPC stated that the credit is to effectuate the agreed-to bargain between EKPC and Nucor as part of the settlement in Case No. 2010-00238,<sup>1</sup> which reflected an allocation methodology based upon the firm demand of each rate class, including Nucor. EKPC and Nucor stated the monthly credit amount agreed to in this matter would be less than what Nucor would have received under the settlement agreement in Case No. 2010-00238.

EKPC indicated that the proposed mechanism would not result in a rate increase nor would it accelerate the need for a rate increase. EKPC stated that RUS has no objections to the proposed mechanism. Lastly, it is EKPC's belief that the proposed mechanism would not have any adverse effects on its credit ratings and that the rating agencies would generally view the proposed mechanism as positive.

There being no further discussions, the informal conference was adjourned.

Attachment

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<sup>1</sup> Case No. 2010-00238, An Investigation of East Kentucky Power Cooperative, Inc.'s Need for the Smith 1 Generating Facility (Ky. PSC Feb. 28, 2011).

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER )  
COOPERATIVE, INC. FOR DEVIATION FROM )  
OBLIGATIONS RESULTING FROM )  
CASE NO. 2012-00169 )  
CASE NO. 2015-00358

=====  
June 24, 2016 Informal Conference  
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Please sign in:

NAME

REPRESENTING

RICHARD RAFF	PSC-LEGAL
Quang Nguyen	PSC
Mike Kurtz	KIUC
Larry Coate	AG
Patrick Woods	ETPC.
Isaac Scott	EKPC
Mike Madelley	EKPC
David Samford	Goss Samford-EKPC
JEFF JOHNSON	PSC
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