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August 8, 2016

RECEIVED

AUG 08 2016

PUBLIC SERVICE
COMMISSION

Via Hand-Delivery

Talina R. Mathews, Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

Re: In the Matter of: The Application of East Kentucky Power Cooperative, Inc.
For Deviation from Obligation Resulting from Case No. 2012-00169
PSC Case No. 2015-00358

Executive Director Mathews:

On behalf of East Kentucky Power Cooperative, Inc. ("EKPC"), please find enclosed for filing with the Commission in the above-referenced case an original and ten (10) copies of EKPC's Motion to Accept and Approve Stipulation and Recommendation of the Parties.

Please return a file-stamped copy of the Motion to me, and please do not hesitate to contact me if you have any questions or concerns.

Very truly yours,



Mark David Goss

Enclosures

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AUG 08 2016

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

MOTION TO ACCEPT AND APPROVE
STIPULATION AND RECOMMENDATION OF THE PARTIES

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by and through counsel, and hereby tenders for filing in the above-captioned proceeding the enclosed Stipulation and Recommendation entered into by and among EKPC, the Office of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and Kentucky Industrial Utility Customers, Inc. (collectively, the "Parties").¹ The Stipulation and Recommendation reflects the Parties' agreement as to the fair, just, and reasonable resolution of this matter, and EKPC requests that the Commission accept and approve same.

WHEREFORE, EKPC respectfully requests an Order from the Commission:

1. Accepting and approving the Stipulation and Recommendation as filed;
2. Providing for the conclusion of this matter as expeditiously as practicable; and
3. Granting to EKPC all other relief to which it may appear entitled.

¹ The fully-executed Stipulation and Recommendation is attached hereto as Exhibit A. Additionally, EKPC tenders as attached Exhibit B the Supplemental Direct Testimony of Michael McNalley in Support of the Stipulation and Recommendation.

This 8th day of August, 2016.

Respectfully submitted,



Mark David Goss
David S. Samford
M. Evan Buckley
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Counsel for East Kentucky Power Cooperative, Inc.

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing has been served, by delivering same to the custody and care of the U.S. Postal Service, postage pre-paid, this 8th day of August, 2016, addressed to the following:

Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn
BOEHM, KURTZ & LOWRY
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202

Rebecca Goodman
Lawrence W. Cook
Stefanie J. Kingsley
Assistant Attorneys General
1024 Capital Center Dr., Suite 200
Frankfort, KY 40601-8204



Counsel for East Kentucky Power Cooperative, Inc.

STIPULATION AND RECOMMENDATION

This Stipulation and Recommendation is entered into this 8th day of August, 2016, by and among East Kentucky Power Cooperative, Inc. (“EKPC”); the Office of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (the “AG”); and Kentucky Industrial Utility Customers, Inc. (“KIUC”), in the proceeding involving the above parties, which are the subject of this Stipulation and Recommendation, as set forth below. (EKPC, the AG, and KIUC may be referred to collectively herein as the “Parties.”)

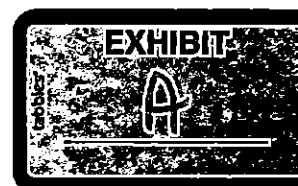
W I T N E S S E T H:

WHEREAS, EKPC filed on October 30, 2015, with the Kentucky Public Service Commission (“Commission”) its Application in *In the Matter of: The Application of East Kentucky Power Cooperative, Inc. for Deviation from Obligation Resulting from Case No. 2012-00169*, and the Commission then established Case No. 2015-00358;

WHEREAS, the AG and KIUC have been granted intervention by the Commission in this proceeding;

WHEREAS, informal conferences, attended in person or by teleconference by representatives of the Parties and Commission Staff took place on November 20, 2015, December 22, 2015, January 29, 2016, March 17, 2016, and June 24, 2016, at the offices of the Commission, during which a number of procedural and substantive issues were discussed, including terms and conditions related to the issues pending before the Commission in this proceeding that might be considered by all parties to constitute reasonable means of addressing their concerns;

WHEREAS, EKPC submitted to the Commission on June 22, 2016, an Amended Application in this proceeding, which Amended Application reflects a plan, denoted therein and



herein as the “Smith Solution,”¹ designed to address and satisfy the directive of the Commission contained in the PJM Integration Order concerning the implementation of a CBS Mechanism;

WHEREAS, by Order in Case No. 2005-00053,² the Commission authorized EKPC’s construction of Smith 1;

WHEREAS, pursuant to the Smith 1 Settlement Agreement and Commission Order in Case No. 2010-00238,³ EKPC voluntarily abandoned construction of Smith 1;

WHEREAS, the Smith 1 Settlement Agreement noted that Smith 1 was not primarily planned to serve the load of Gallatin Steel Company (now Nucor Steel Gallatin) (“Nucor”) and further recognized that the “appropriate allocation of [the Smith 1] cost to [Nucor] and the other rate classes is based upon the firm demand of each rate class including [Nucor];”

WHEREAS, by Order in Case No. 2010-00449,⁴ the Commission authorized EKPC’s establishment of the Smith 1 Regulatory Asset for accounting purposes only;

WHEREAS, pursuant to the 2010 Rate Case Settlement Agreement and Commission Order in Case No. 2010-00167,⁵ EKPC’s existing base rates reflect the Smith 1 Interest Expense;

¹ Unless otherwise noted or indicated by context, terms that are capitalized and defined in EKPC’s Amended Application filed in this proceeding have the same meaning when referenced herein.

² *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* (Ky. P.S.C. Aug. 29, 2006).

³ *In the Matter of: An Investigation of East Kentucky Power Cooperative, Inc.’s Need for the Smith 1 Generating Facility* (Ky. P.S.C. Feb. 28, 2011).

⁴ *In the Matter of: 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* (Ky. P.S.C. Feb. 28, 2011).

⁵ *In the Matter of: Application of East Kentucky Power Cooperative, Inc. for General Adjustment of Electric Rates* (Ky. P.S.C. Jan. 14, 2011).

WHEREAS, EKPC expects to realize certain PJM Capacity Market Benefits and incur certain PJM Capacity Market Costs during the PJM Delivery Years of 2016/17, 2017/18, and 2018/19 as a result of its membership and participation in PJM;

WHEREAS, in consultation with interested parties, EKPC has proposed the Smith Solution as a means to flow its Net PJM Capacity Market Benefits to its Owner-Members and their retail customers through the amortization of the Smith 1 Regulatory Asset, thereby eliminating the need for a Smith 1 surcharge, as further described in its Amended Application;

WHEREAS, EKPC has requested that the Commission approve the Smith Solution, as described in its Amended Application and outlined herein;

WHEREAS, the Parties desire to recommend to the Commission that it enter an Order granting EKPC's requested relief and setting the terms and conditions that the parties believe are reasonable as stated herein;

WHEREAS, it is understood by all Parties that this agreement is a stipulation among the Parties concerning all matters at issue in these proceedings pursuant to 807 KAR 5:001, Section 9(6);

WHEREAS, the Parties have expended significant time and effort to reach the stipulations and agreements that form the basis of this Stipulation and Recommendation;

WHEREAS, the Parties, who represent diverse interests and divergent viewpoints, agree that this Stipulation and Recommendation, viewed in its entirety, is a fair, just and reasonable resolution of all the issues in this proceeding; and

WHEREAS, the Parties recognize that this agreement constitutes only an agreement among, and a recommendation by, themselves, and that all issues in this proceeding remain open

for consideration by the Commission at a formal hearing in this proceeding, should the Commission determine such a hearing is necessary.

NOW, THEREFORE, in consideration of the premises and conditions set forth herein, the Parties hereby stipulate, agree, and recommend as follows:

ARTICLE I. Agreement in Support of the Smith Solution

Section 1.1. EKPC's Amended Application details the provisions of the Smith Solution, and each of the Parties has read and understands the terms of the proposal.

Section 1.2. The Parties agree that EKPC should be permitted to proceed with the Smith Solution as described in its Amended Application. Specifically, the Parties agree that:

Section 1.2.1. EKPC shall continue to record as revenues during the appropriate accounting periods its PJM Capacity Market Benefits, including market bonuses associated with PJM's Capacity Performance market design. Correspondingly, EKPC shall record as expenses during the appropriate accounting periods its PJM Capacity Market Costs (inclusive of all mitigation insurance premiums, amounts paid (if any) for mitigation insurance deductibles, and amounts paid (if any) for market penalties associated with PJM's Capacity Performance market design that exceed the applicable mitigation insurance coverage). The Net PJM Capacity Market Benefit shall impact EKPC's margins in the appropriate accounting periods;

Section 1.2.2. EKPC shall begin amortizing the book balance of the Smith 1 Regulatory Asset, net of the expected mitigation and salvage efforts,

beginning January 1, 2017. This amortization shall be for accounting purposes only and will reflect an amortization schedule spanning a ten (10) year period. The amortization expenses shall impact EKPC's margins in the appropriate accounting periods;

Section 1.2.3. Beginning with the Commission's final Order in this proceeding and continuing until the effective date for new rates resulting from EKPC's next general base rate proceeding, Nucor shall receive from EKPC a temporary monthly bill credit in the amount of \$35,000.00;

Section 1.2.4. The Smith 1 Interest Expense shall remain in EKPC's base rates until its next general base rate proceeding and shall continue to impact EKPC's margins in the appropriate accounting periods. In its next general base rate proceeding, EKPC shall discontinue its specific identification of the Smith 1 Interest Expense and include this expense as part of the cost of service to be recovered along with other interest expense.

Section 1.2.5. As part of its next general base rate proceeding, EKPC shall request that its rates be adjusted to reflect the amortization expense of the Smith 1 Regulatory Asset. This amortization adjustment shall be spread over the remaining months of the 10-year amortization period that began on January 1, 2017, and shall be based on the Smith 1 Regulatory Asset balance as of January 1, 2017, reduced by: (i) the actual results of EKPC's mitigation and salvage efforts during the period of January 1, 2017, through the end of the test year

employed in the rate case; and (ii) the Net PJM Capacity Market Benefit earned by EKPC beginning with the 2016/17 PJM Delivery Year and concluding at either the end of the test year employed in the rate case or the end of calendar year 2019. This latter determination shall be made depending on whether, at the time of EKPC's next general base rate proceeding, the PJM Capacity Market Costs associated with calendar year 2019 are known and measurable. If they are, EKPC shall request an amortization adjustment that reflects the full Net PJM Capacity Market Benefit realized through 2019. If, however, the PJM Capacity Market Costs associated with calendar year 2019 are not known and measurable at the time of EKPC's next general base rate proceeding, EKPC shall request an amortization adjustment that reflects only the Net PJM Capacity Market Benefit realized through the end of the test year employed in the rate case. Should this second circumstance exist, EKPC shall request that the Net PJM Capacity Market Benefit realized after the end of the rate case test year be recognized as part of the determination of the amortization adjustment in a subsequent general base rate proceeding. For cost-of-service purposes, the amortization expense of the Smith 1 Regulatory Asset will be treated like other capacity related costs (e.g., power plant depreciation).

Section 1.3. The Parties agree that the Smith Solution is consistent with prudent utility management and is designed to both responsibly address EKPC's

outstanding obligations and promote a reasonable and equitable sharing of EKPC's PJM capacity benefits.

Section 1.4. The Parties recommend that the Commission enter an Order approving EKPC's Amended Application and the Smith Solution as proposed.

ARTICLE II. Miscellaneous Provisions

Section 2.1. Except as specifically stated otherwise in this Stipulation and Recommendation, the Parties agree that making this Stipulation and Recommendation shall not be deemed in any respect to constitute an admission by any Party hereto that any computation, formula, allegation, assertion, or contention made by any other Party in these proceedings is true or valid.

Section 2.2. The Parties agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein and are consistent with the public interest.

Section 2.3. The Parties agree that, following the execution of this Stipulation and Recommendation, the Parties shall cause the Stipulation and Recommendation to be filed with the Commission.

Section 2.4. Each Party waives all cross-examination of the other Parties' witnesses unless the Commission disapproves this Stipulation and Recommendation. The Parties stipulate that, after the date of this Stipulation and Recommendation, they will not contest EKPC's Amended Application in this proceeding or the relief requested therein, and they further stipulate that they will refrain from cross-examination of all witnesses during the hearing.

except insofar as such cross-examination supports the Stipulation and Recommendation or EKPC's Amended Application.

Section 2.5. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Stipulation and Recommendation be accepted and fully incorporated into any Order approving EKPC's Amended Application in this proceeding.

Section 2.6. If the Commission issues an Order adopting all of the terms and conditions recommended herein, each of the Parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such Order.

Section 2.7. The Parties agree that if the Commission does not implement all of the terms recommended herein in its final Order in this proceeding, or if the Commission in its final Order in this proceeding adds or imposes additional conditions or burdens upon any or all of the Parties that are unacceptable to any or all of the Parties, then: (a) this Stipulation and Recommendation shall be voidable and may be withdrawn by the Parties from further consideration by the Commission and none of the Parties shall be bound by any of the provisions herein, provided that no Party is precluded from advocating any position contained in this Stipulation and Recommendation; and (b) neither the terms of this Stipulation and Recommendation nor any matters raised during the settlement negotiations shall be binding on any of the Parties to this Stipulation and Recommendation or be construed against any of the Parties.

Section 2.8. The Parties agree that this Stipulation and Recommendation shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

Section 2.9. The Parties agree that this Stipulation and Recommendation shall inure to the benefit of, and be binding upon, the Parties, their successors and assigns.

Section 2.10. The Parties agree that this Stipulation and Recommendation constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements made prior hereto or contemporaneously herewith, shall be null and void, and shall be deemed to have been merged into this Stipulation and Recommendation.

Section 2.11. The Parties agree that, for the purpose of this Stipulation and Recommendation only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

Section 2.12. The Parties agree that neither the Stipulation and Recommendation nor any of the terms shall be admissible in any court or administrative agency except insofar as such court or administrative agency is addressing litigation arising out of the implementation of the terms herein. This Stipulation and Recommendation shall not have any precedential value in this or any other jurisdiction.

Section 2.13. The signatories hereto warrant that they have informed, advised, and consulted with the Parties they represent in this proceeding in regard to the contents and significance of this Stipulation and Recommendation, and

based upon the foregoing are authorized to execute this Stipulation and Recommendation on behalf of the Parties they represent.

Section 2.14. The Parties agree that this Stipulation and Recommendation is a product of negotiation among all Parties, and that no provision of this Stipulation and Recommendation shall be strictly construed in favor of, or against, any Party.

Section 2.15. The Parties agree that this Stipulation and Recommendation may be executed in multiple counterparts.

IN WITNESS WHEREOF, the Parties have hereunto affixed their signatures.

East Kentucky Power Cooperative, Inc.

HAVE SEEN AND AGREED:



Mark David Goss, Counsel

Office of the Attorney General of the
Commonwealth of Kentucky, by and through
his Office of Rate Intervention

HAVE SEEN AND AGREED:


Rebecca Goodman, Executive Director

Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

A handwritten signature in blue ink, appearing to read "Michael L. Kurtz", written over a horizontal line.

Michael L. Kurtz, Counsel

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

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

**SUPPLEMENTAL TESTIMONY OF MICHAEL MCNALLEY
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.,
IN SUPPORT OF STIPULATION AND RECOMMENDATION**

Filed: August 8, 2016



1 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.**

2 A. My name is Mike McNalley and my business address is East Kentucky Power
3 Cooperative, Inc. (“EKPC”), 4775 Lexington Road, Winchester, Kentucky 40391.
4 I am Executive Vice President and Chief Financial Officer for EKPC.

5 **Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. Yes, both in conjunction with EKPC’s original Application filed herein on October
8 30, 2015, and in conjunction with EKPC’s Amended Application submitted herein
9 on June 22, 2016.

10 **Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL TESTIMONY?**

11 A. The purpose of this supplemental testimony is to introduce and generally describe
12 the Stipulation and Recommendation entered into on or about August 8, 2016 (the
13 “Stipulation”), by and among EKPC, the Office of the Attorney General of the
14 Commonwealth of Kentucky, by and through the Office of Rate Intervention (the
15 “AG”), and Kentucky Industrial Utility Customers, Inc. (“KIUC”) (EKPC, the AG,
16 and KIUC may be referred to collectively herein as the “Parties”). I will also
17 confirm that the Stipulation represents a fair, just, and reasonable resolution of the
18 issues of this proceeding and is consistent with the public interest.

19 **Q. PLEASE BRIEFLY DESCRIBE HOW THE STIPULATION CAME**
20 **ABOUT.**

21 A. The Stipulation is the product of much negotiation and compromise by EKPC, the
22 AG, and KIUC, and it was achieved after extensive discussions involving the
23 Parties and Commission Staff. EKPC is appreciative of the Parties’ willingness to

1 view this case on its own facts and to fashion an agreement accordingly. EKPC is
2 also appreciative of Commission Staff for accommodating the Parties by hosting
3 no less than five (5) informal conferences and providing helpful comment and
4 insight into various issues in this proceeding.

5 **Q. WHAT ARE THE BASIC TERMS OF THE STIPULATION?**

6 **A.** Through the Stipulation, the Parties agree that EKPC should be permitted to
7 proceed with the “Smith Solution.”¹ As I discussed in my previous supplemental
8 testimony, EKPC has proposed the Smith Solution as a means to flow its Net PJM
9 Capacity Market Benefits to its Owner-Members and their retail customers through
10 the amortization of the Smith 1 Regulatory Asset. The Stipulation embraces the
11 Smith Solution and details the actions EKPC will take both prior to and during its
12 next general base rate adjustment proceeding to address the Smith 1 Regulatory
13 Asset and the utilization of its Net PJM Capacity Market Benefits.

14 **Q. WHY HAVE THE PARTIES ENTERED INTO THE STIPULATION?**

15 **A.** There are a number of reasons why the Parties have entered into the Stipulation. In
16 general terms, the Parties, who represent diverse interests and divergent viewpoints,
17 agree that the Stipulation, viewed in its entirety, is a fair, just and reasonable
18 resolution of all the issues in this proceeding. The Parties further agree that the
19 Smith Solution, which eliminates the need for a Smith 1 surcharge, is consistent
20 with prudent utility management and is designed to both responsibly address

¹ Unless otherwise noted or indicated by context, terms that are capitalized and defined in EKPC’s Amended Application filed in this proceeding have the same meaning when referenced herein.

1 EKPC's outstanding obligations and promote a reasonable and equitable sharing of
2 EKPC's PJM capacity benefits.

3 **Q. IS THE STIPULATION IN THE BEST INTEREST OF EKPC, ITS OWNER-**
4 **MEMBERS, AND THE ULTIMATE CONSUMERS?**

5 A. Yes.

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION


In the Matter of:

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

VERIFICATION OF MICHAEL McNALLEY

COMMONWEALTH OF KENTUCKY)
)
 COUNTY OF CLARK)

Michael McNalley, Executive Vice President and Chief Financial Officer of East Kentucky Power Cooperative, Inc., in his official capacity, and, after being duly sworn, verifies and affirms that he has read the foregoing prepared supplemental direct 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 formed after reasonably inquiry.


 MICHAEL McNALLEY, Executive Vice President and
 Chief Financial Officer of East Kentucky Power
 Cooperative, Inc.

The foregoing Verification was signed, acknowledged, and sworn to before me this 8th day of August, 2016, by Michael McNalley.


 NOTARY PUBLIC, Commission # 479010

My Commission Expires 12/20/2016