

Matthew G. Bevin  
Governor

Charles G. Snavely  
Secretary  
Energy and Environment Cabinet



Commonwealth of Kentucky  
**Public Service Commission**  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602-0615  
Telephone: (502) 564-3940  
Fax: (502) 564-3460  
psc.ky.gov

Michael J. Schmitt  
Chairman

Robert Cicero  
Vice Chairman

Daniel E. Logsdon Jr.  
Commissioner

December 28, 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 "Talina R. Mathews".

Talina R. Mathews  
Executive Director


QN/ph

Attachments

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File

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

**DATE:** December 27, 2016

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

Pursuant to a Commission Staff Notice issued on December 21, 2016, an informal conference was held on December 21, 2016, at the Commission's offices in Frankfort, Kentucky. The purpose of the informal conference was to discuss certain outstanding issues related to Stipulation and Recommendation ("Stipulation") submitted by East Kentucky Power Cooperative Inc.'s ("EKPC") on August 8, 2016. A list of the attendees is attached hereto.

Commission Staff sought clarification for the provisions contained in the Stipulation dealing with the amortization of the Smith 1 Regulatory Asset on EKPC's books beginning January 1, 2017 and how the amortization will be reflected when EKPC files its next base rate case. EKPC stated that the intent of those provisions is to ensure that there would be no double recovery of the amortization expenses associated with the Smith 1 Regulatory Asset when EKPC files its next base rate case. EKPC stated that the proposed Smith Solution as documented in the Stipulation should be considered under two general time periods: 1) the period of time that precedes EKPC's next general base rate adjustment and 2) the period of time that begins with EKPC's next general base rate adjustment and continuing thereafter. EKPC noted that language of the Stipulation was carefully crafted to avoid triggering a write-off of the unamortized balance of the Smith 1 Regulatory Asset, yet also preventing any double recovery of related expenses by EKPC in its next rate case filing.

EKPC explained that starting January 1, 2017, until its next rate case, it will amortize for accounting purposes the Smith 1 Regulatory asset book value, less a reasonable estimate of the mitigation and salvage efforts, over a 10-year period. Once it files its next rate case, EKPC will seek recovery of an amortization expense based on the January 1, 2017 book value of the Smith 1 Regulatory Asset, less the actual mitigation and salvage efforts, and less the net PJM Capacity Benefits earned from the 2016/2017 delivery year through either the end of the test year in that rate case or the end of 2019. EKPC stated that the PJM capacity benefits and related costs (i.e., mitigation insurance premiums, mitigation insurance deductibles, and/or penalties under the Capacity Performance market construct) should be known after June 2019, and that based on its

current projections the PJM Capacity Market benefits beyond 2019 will likely be minimal. If the salvage costs and capacity benefits are not known after June 2019, EKPC stated that it would apply a conservative estimate for the salvage costs and the capacity benefits would be estimated to reflect what would be reasonable. Finally, EKPC agreed that if by the time of its next rate case there is a reasonable expectation that the PJM Capacity Market benefits beyond 2019 will be greater than minimal, it will be open to discussing a mechanism to reflect those future benefits to benefit ratepayers.

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

Attachment

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

**Informal Conference – December 21, 2016**

Please sign in:

NAME	REPRESENTING
<u>Quang Nguyen</u>	<u>PSC</u>
<u>Aaron Greenwell</u>	<u>PSC</u>
<u>Bob Russell</u>	<u>PSC</u>
<u>Kent Chandler</u>	<u>Attorney General's Office</u>
<u>Mark David Gross</u>	<u>EKPC</u>
<u>Mike McVulley</u>	<u>EKPC</u>
<u>Patrick Wood</u>	<u>EKPC</u>
<u>Richard Raff</u>	<u>PSC</u>
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\*David S Samford  
Goss Samford, PLLC  
2365 Harrodsburg Road, Suite B325  
Lexington, KENTUCKY 40504

\*Jody M Kyler Cohn  
Boehm, Kurtz & Lowry  
36 East Seventh Street  
Suite 1510  
Cincinnati, OHIO 45202

\*Honorable Kurt J Boehm  
Attorney at Law  
Boehm, Kurtz & Lowry  
36 East Seventh Street  
Suite 1510  
Cincinnati, OHIO 45202

\*Larry Cook  
Assistant Attorney General  
Office of the Attorney General Utility & Rate  
1024 Capital Center Drive  
Suite 200  
Frankfort, KENTUCKY 40601-8204

\*Honorable Michael L Kurtz  
Attorney at Law  
Boehm, Kurtz & Lowry  
36 East Seventh Street  
Suite 1510  
Cincinnati, OHIO 45202

\*East Kentucky Power Cooperative, Inc.  
4775 Lexington Road  
P. O. Box 707  
Winchester, KY 40392-0707

\*Stefanie J Kingsley  
Assistant Attorney General  
Office of the Attorney General Utility & Rate  
1024 Capital Center Drive  
Suite 200  
Frankfort, KENTUCKY 40601-8204