



December 12, 2014

Mr. Jeffrey Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Consolidated Emergency Backup Power Service Agreement and Site Lease Agreement, dated November 26, 2014, between East Kentucky Power Cooperative, Inc., South Kentucky Rural Electric Cooperative Corporation, and Equity Group/Kentucky Division, LLC

Dear Mr. Derouen:

Attached as Attachment 1, for filing with the Public Service Commission (the "Commission"), is a copy of the Consolidated Emergency Backup Power Service Agreement dated November 26, 2014 ("2014 Backup Power Agreement") between East Kentucky Power Cooperative, Inc. ("EKPC"), South Kentucky Rural Electric Cooperative Corporation ("SKRECC"), and Equity Group/Kentucky Division, LLC ("Equity"). Attachment 1 also includes a copy of the Site Lease Agreement ("Lease") dated November 26, 2014 between EKPC and Equity. The 2014 Backup Power Agreement is proposed to be effective upon the date the Commission approves the Agreement. The term of the Lease is the same as and concurrent with the 2014 Backup Power Agreement. EKPC, as a party to both agreements, and on behalf of SKRECC and Equity, hereby submits the 2014 Backup Power Agreement and Site Lease Agreement for Commission approval, pursuant to the requirements set forth in KRS § 278.160(1) and KRS § 278.180(1).

EKPC and SKRECC have been providing emergency backup service to Equity under a Wholesale Emergency Backup Service Agreement dated January 31, 2003 ("2003 Wholesale EBS Agreement") and an Emergency Backup Service Agreement Rider to Industrial Power Agreement dated January 24, 2003 ("2003 Retail EBS Agreement") (jointly the "2003 Agreements"). Both agreements were approved by the Commission effective March 1, 2003. Equity, EKPC, and SKRECC have held discussions for several months concerning the continuation of the emergency backup service. As a result of those discussions, EKPC, SKRECC, and Equity agreed to consolidate the 2003 Agreements into a single agreement and continue to provide for the purchase of emergency backup service by Equity.

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The provision of the emergency backup service is essentially the same as provided under the 2003 Agreements. Under the terms of the 2014 Backup Power Agreement, EKPC provides two 1,750 kW diesel electric generators located on Equity's plant site which are available to provide backup service. EKPC will continue to own, operate, maintain, and dispatch the generators. EKPC will use the generators to provide backup service through SKRECC for Equity's exclusive benefit during any interruption of Equity's normal electrical service, unless Equity declines the backup service. At any time EKPC does not need the generators to provide backup service, EKPC may utilize the generators for its own purposes.

The following narrative briefly compares the 2003 Agreements with the 2014 Backup Power Agreement.

- Parties.** The parties to the 2003 Wholesale EBS Agreement were EKPC and SKRECC. The parties to the 2003 Retail EBS Agreement were SKRECC and Cagle's-Keystone Foods, LLC. Cagle's-Keystone Foods, LLC was the previous name for Equity. The parties to the 2014 Backup Power Agreement are EKPC, SKRECC, and Equity.
- Effective Date, Term of Agreement, and Termination Provisions.** The 2003 Agreements were effective March 1, 2003 subject to the approval of the Commission. The 2003 Agreements had an initial term of 5 years and would continue unless and until terminated by a party providing written notice of termination at least 1 year prior to the desired termination date. The 2014 Backup Power Agreement is effective upon the date the Commission approves the Agreement. The 2014 Backup Power Agreement has an initial term of 5 years and shall renew for additional 1 year terms thereafter unless and until terminated by any party providing written notice of termination at least 1 year prior to the next occurring termination date. The 2014 Backup Power Agreement also includes provisions allowing for early termination of the Agreement with a shorter notice period under certain conditions of default, destruction of the generators, or suspension of operations of Equity.
- Charges for Backup Service.** Under the provisions of the 2003 Wholesale EBS Agreement, SKRECC paid EKPC a monthly charge of \$9,116 for the availability of backup service. SKRECC also paid EKPC the actual fuel costs for any operation of the generators to serve Equity. Under the provisions of the 2003 Retail EBS Agreement, Equity paid SKRECC a monthly charge of \$9,512 for the availability of backup service. Equity also either furnished the fuel or would pay SKRECC the actual fuel costs incurred by EKPC for any operation of the generators to serve Equity. The monthly charges by EKPC and SKRECC were determined based on the net book investment in the generators, with all associated carrying costs including operation and maintenance ("O&M") expenses. These costs were to be recovered

over a 10-year period using a levelized annual cost collected over 12 equal monthly payments. The cost elements of interest, depreciation, taxes and insurance, return on equity, and O&M expenses were calculated annually and a present value stream was determined at the cost of capital for both EKPC and SKRECC. The difference in the wholesale and retail charges was simply a result of the different capital structures and allowable Times Interest Earned Ratio requirements of EKPC and SKRECC. While the monthly charges were based on a 10-year recovery of the investment in the generators, there was no provision in the 2003 Agreements to revise the monthly charge once the 10-year period was completed.

The 2014 Backup Power Agreement provides that SKRECC will pay EKPC a monthly charge of \$3,600 for the availability of the backup service. Equity in turn will pay SKRECC a monthly charge of \$3,800 for the availability of the backup service. All routine and major maintenance costs associated with the generators are included in the monthly charges. Concerning fuel costs, Equity will pay SKRECC and SKRECC in turn will pay EKPC the actual fuel costs for any backup service operation of the generators incurred to serve Equity. In addition, Equity will pay SKRECC and SKRECC in turn will pay EKPC ½ of the actual fuel costs incurred for the monthly tests of the generators. Fuel costs attributable to EKPC's operation of the generators at the direction of PJM Interconnection, LLC will be borne exclusively by EKPC.

Attachment 2 to this filing is an explanation of the determination of the monthly charges contained in the 2014 Backup Power Agreement.

4. **Scheduled Maintenance of the Generators.** The 2014 Backup Power Agreement provides that EKPC will give SKRECC and Equity 10 days' advance notice of any scheduled maintenance of one or both of the generators if the maintenance is anticipated to last more than 7 days. EKPC will also use commercially reasonable efforts to coordinate all other maintenance on the generators with both SKRECC and Equity. The 2003 Agreements did not include such a provision.

5. **Operation of Generators and Release of Claims.** The 2014 Backup Power Agreement provides that EKPC and SKRECC will maintain and operate their respective facilities in a reasonable manner in accordance with good utility practice and in compliance with applicable laws. Equity acknowledges that neither EKPC nor SKRECC can guarantee the availability or reliability of the generators at any particular point in time. Equity also agrees and stipulates that neither EKPC nor SKRECC shall be liable in any respect for any damage arising from or relating to the operation or maintenance of the generators or the inability of the generators to provide any or optimal backup service during such times as normal electric service is interrupted for any reason. The 2003 Agreements did not include such a provision or acknowledgements.

Mr. Jeffrey Derouen

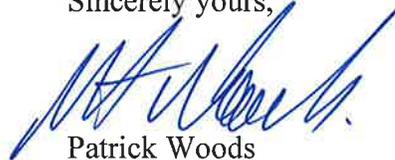
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6. **Dispute Resolution.** The 2014 Backup Power Agreement includes specific provisions relating to dispute resolution. The 2003 Agreements did not include such a provision.
7. **Site Lease Agreement.** In addition to the 2014 Backup Power Agreement, EKPC and Equity have entered into a Lease. The Lease addresses the rights and responsibilities of EKPC and Equity concerning the provision of the land on which the generators are located at Equity's plant site. A similar agreement was not part of the 2003 Agreements.

The parties request approval of the 2014 Backup Power Agreement and Lease under Section 278.180(1). If you have any questions about this filing, please contact Isaac Scott at EKPC at telephone (859) 745-9243.

Sincerely yours,



Patrick Woods

Director, Regulatory & Compliance Services

Attachments

cc: Allen Anderson, SKRECC
B. J. Svajgl, Equity
Isaac Scott, EKPC