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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC RATES) PSC CASE NO.
OF EAST KENTUCKY POWER) 2008-00409
COOPERATIVE, INC.)

MOTION FOR THE CREATION OF A REGULATORY ASSET
RELATING TO UNRECOVERED REVENUES

East Kentucky Power Cooperative, Inc. ("EKPC") hereby moves the Kentucky Public Service Commission (the "Commission") for an Order in this case permitting EKPC to establish a regulatory asset representing the amount of additional revenues EKPC would recover from April 1, 2009 through the effective date of the base wholesale rate adjustment approved by the Commission in this case, were those approved rates in effect for that period. In support thereof, Applicant states as follows:

1. EKPC is seeking the approval of accounting practices for the establishment of a regulatory asset for the primary purpose of recovering revenues to offset operation, maintenance, depreciation and interest costs for the Spurlock 4 unit, from its anticipated commercial operation date of April 1, 2009, through the effective date of the rate adjustment approved by the Commission in this case. Despite its best efforts to coordinate the rate case filing with the commercial operation of Spurlock 4, EKPC was unable to finalize its financial budget, obtain member system approvals and complete the necessary pass through notices, in time to file its general rate adjustment Application on a schedule which would support an effective date of April

1, 2009, as further discussed in the attached Prepared Testimony of William Steven Seelye, Principal and Senior Consultant of the Prime Group, L.L.C., EKPC's rate consultant in this case, in support of this Motion (EKPC Motion Exhibit 1).

2. The characteristics of East Kentucky Power Cooperative's financial structure consist of minimal equity, high debt leverage, and a reliance on the all-requirements wholesale power contracts with its member system owners for its revenue. Due to EKPC's financial structure, it has no shareholders to absorb these generating unit operating costs, and any such costs which are not recovered in rates will adversely affect net margins for 2009 and members' equity. EKPC seeks authority to create a regulatory asset in regard to additional revenues that would be recovered, based on the rate increase approved by the Commission in this case, by applying those rates from April 1, 2009 through the effective date of the general base rate increase, in accordance with the Commission's rate-making authority and Statement of Financial Accounting Standards No. 71. It is critical for EKPC to address this situation prior to the Spurlock 4 commercial operation date, due to the concern that the high level of such expenses from the commercial operation date of the Spurlock 4 unit until the effective date of any rate increase approved by the Commission in this case, if not recovered, could jeopardize EKPC's ability to earn sufficient net margins in 2009 to meet its loan covenants under its Rural Utilities Service ("RUS") and National Rural Utilities Cooperative Finance Corporation ("CFC") Mortgage, and/or its private Credit Facility financing.

3. As part of its rate-making authority, the Commission is authorized to “establish a system of accounts to be kept by utilities subject to its jurisdiction ... and may prescribe the manner in which accounts shall be kept.”¹

4. The Commission has interpreted KRS 278.220 to require utilities to obtain Commission approval for accounting adjustments before establishing any expense as a new regulatory asset.²

5. EKPC proposes that the amount of additional revenues which would be produced by the application of the rates approved by the Commission in this case from April 1, 2009, until the effective date of the base rate increase, be treated as a regulatory asset, to be amortized over three years.

6. EKPC will seek recovery of such amortized additional revenues in this base rate case, as further explained in the Prepared Testimony of William Steven Seelye, EKPC Application Tab 23.

7. In the alternative, should the Commission determine that the requested accounting relief cannot be granted, EKPC requests the Commission to shorten the statutory suspension period in this case, pursuant to KRS §278.190 (2), in order to allow EKPC to place all or a portion of its proposed rate increase into effect on April 1, 2009, subject to refund in the event that the amount exceeds any permanent rate increase granted by the Commission in the case, in order to fully recover the subject Spurlock 4 costs.

¹ KRS 278.220.

² Order, *In the Matter of the Adjustment of Rates of The Union, Light, Heat and Power Company*, Case No. 2001-00092 at 14 (January 31, 2002).

8. Attached to this Motion, as EKPC Motion Exhibit 1, is the Prepared Testimony of Mr. Seelye in support of this Motion, dealing with the current EKPC financial circumstances, the subject Spurlock 4 costs, and the proposed accounting treatment.

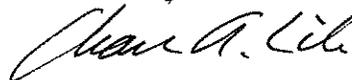
9. Due to EKPC's urgent need to address all available options for dealing with its potential shortfall in net margins in advance of the commercial operation date of Spurlock 4, EKPC requests expedited review of this Motion.

WHEREFORE, East Kentucky Power Cooperative, Inc., hereby moves the Commission to issue an order granting the requested approval for accounting practices to establish a regulatory asset relating to the subject additional revenues or, in the alternative, shortening the suspension period in the case to allow EKPC to place all or a portion of its proposed rates into effect on April 1, 2009, subject to refund if the amount exceeds the permanent rate increase granted to EKPC in this case.

Respectfully submitted,



DAVID A. SMART



CHARLES A. LILE

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CERTIFICATE OF SERVICE

This is to certify that an original and 10 copies of the foregoing Motion were delivered to the office of Stephanie L. Stumbo, Executive Director of the Public Service Commission, 211 Sower Boulevard, Frankfort, KY 40601, and copies were mailed to Dennis G. Howard II, Esq., Assistant Attorney General, Office of Rate Intervention, P.O. Box 2000, Frankfort, Kentucky 40602-2000, and to Michael L. Kurtz, Esq., Boehm, Kurtz & Lowry, 36 East Seventh Street, Suite 1510, Cincinnati, Ohio 45202, this 31st day of October, 2008.



Charles A. Lile