COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC., FOR GENERAL ADJUSTMENT OF ELECTRIC RATES	)))	CASE NO. 2010-00167

MOTION

Comes now Grayson Rural Electric Cooperative Corporation (GRAYSON), by and through counsel, and moves the Commission for an order to reopen the above-referenced action, for an order granting GRAYSON the right to intervene in the within action, and for an order granting supplemental relief as hereinafter requested. In support of this motion GRAYSON states as follows:

1. The Commission entered an Order herein January 14, 2011, (THE ORDER), which provided for an increase in rates to East Kentucky Power (EKP) of an additional revenue of 43 million dollars. THE ORDER provided among other things, that a settlement agreement reached by EKP and the other intervening parties, with the exception of the Attorney General's office, was an appropriate settlement. THE ORDER further provided that to ensure acceptance by EKP's members, EKP was required to file with the Commission, "fully executed verification and acknowledgment statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism as described in the previous section of this Order". It is believed by GRAYSON that such verification and acknowledgment has not been executed, nor asked to be executed nor certainly filed with the Commission. Accordingly, the settlement approved by THE ORDER, adopting the settlement is a settlement agreement that has never been approved

by Grayson nor the other distribution cooperatives. EKP should be issued a show cause order concerning its failure to file same with the Commission.

2. THE ORDER based its decision on a belief that EKP margins that were justified by the evidence, would be $55,359,963.00. (See footnote 21 on page 19 of THE ORDER) This was to provide for a TIER attained by EKP of 1.50. THE ORDER provided further that the settlement agreement was to be adopted in its entirety which provided that EKP was to file a base rate application once 2011 financial results were known and that if its TIER exceeded 1.50 it was to file a base rate case application. The margins for EKP for 2011 turned out to be 55.9 million. This number was preceded by actual 2010 margins of 31.9 million. Also, the 2011 margins of 55.9 million followed a year-to-date margin approaching 60 million that had been attained through October and November 2011. A budgeted margin of 12.3 million for December 2011 compared quite unfavorably to an actual 2 million dollar loss for December of 2011. The significant difference between the December 2011 budgeted margin of 12.3 million and the actual loss of 2 million was quite beneficial to EKP and fortuitously resulted in EKP just missing a 1.50 TIER. See the attached Exhibit. The 2012 margin for EKP was 53.9 million with a similar wide discrepancy in budgeted margins for December of 2012 versus actual margins for December of 2012. An 8.5 million dollar difference is shown on the attached Exhibit between the budgeted and actual December 2012 margins. Again, this is fortuitous as this resulted in a 1.47 TIER rather than a 1.5 TIER. The attached Exhibit shows margins for 2013 of 70.1 million dollars which obviously is in excess of 15 million dollars over the desired 55 million dollar margin which the Commission sought to achieve for EKP in THE ORDER.

Since, therefore, the agreement adopted by THE ORDER required EKP to file a base rate application, and since it has not, and since the agreement further provided for an over-earning mechanism that would be triggered if TIER was in excess of 1.50, resulting in a rebate on a ratable basis to the distribution cooperatives and a distribution to the end consumer of those distribution cooperatives, then same should be directed to be done so as to become compliant with THE ORDER. The 1.50 TIER was clearly achieved in 2013, and by all accounts, based upon information and belief, was achievable in 2012 and 2011.

The Commission, therefore, should make all appropriate inquiries concerning the method of capitalizing versus expensing costs that go into the determination of the calculation of TIER. Had the base rate application been filed by EKP as ordered then the Commission would presumably already have this knowledge. An inquiry into any audit adjustments for the year 2011, 2012, and 2013 should be made so as to ensure compliance with the literal wording and intent of the agreement and THE ORDER as well as an analysis into the basis for the poor financial performance in December 2011 and December 2012 at least as compared to the budgeted margins for those particular months. Clearly, the poor financial performance for those months as compared to the budgeted amount was a component of the TIER of EKP being below 1.5 rather than above.

The attached Exhibit is a document evidencing, among other things, the margin of EKP for January 2014 of 24.4 million dollars. This margin is 10 million dollars higher than that which was budgeted and is nearly 35% of the entire 2013 margins earned by EKP. It is believed that February 2014 margins would be indicative of an amount in excess of that budgeted although that information is yet to be learned by GRAYSON.

3. GRAYSON further moves the Commission for an order allowing it to intervene in the within action as it is a distribution cooperative that is one of the 16 member/owners of EKP

with offices at 109 Bagby Park, Grayson, Kentucky. It further believes that the Commission should entertain a request to allow the other distribution cooperatives to either intervene in the within action for the purposes expressed herein or at least be given notice of the opportunity to do so should they desire. These other distribution cooperatives should be given the opportunity to employ separate representatives to assist them in any intervention, separate and apart from the positions advanced by EKP so as to ensure the exercise of independence by those distribution cooperatives.

The Liberty Management Audit referenced in THE ORDER was one in the instant proceeding to which the Commission felt there needed to be adherence. EKP has not shown adherence in the within action as evidenced by the settlement agreement language in and of itself. The settlement was evidently approved by the Board of EKP at a hastily called special board meeting conducted telephonically, on November 29, 2010, which lasted only 51 minutes. There was no agreement presented to the Board but only a reference to the agreement made by upper level management and its counsel. It is interesting to note that the Commission in the instant case referenced a November 29, 2010, informal conference at which it was advised by EKP that a settlement had been reached. The timing of that informal conference and the evidentiary hearing held in this case on November 30, 2010, demonstrates the lack of necessary transparency, considered debate, and knowledge gaining that seemed to be centerpiece of the Liberty Management Audit report. THE ORDER on page 2 herein even recites that "the terms of the settlement had not been finalized". Clearly, GRAYSON nor any of the other distribution cooperatives had ever seen the settlement agreement before its adoption. EKP as shown by the agreement, however, represented to the Commission that that settlement was not only fair, just, and reasonable for the parties but "for all members of EKPC". THE ORDER further provides that the allocations of the increase in revenue for EKP as set forth on a schedule designated as Exhibit 1, which exhibit is not attached to THE ORDER, is not only fair, just, and reasonable for the parties but also "for all members of EKPC". GRAYSON believes that it should not have EKP decide what is fair, just, and reasonable for GRAYSON without GRAYSON having the opportunity to view and consider that which EKP deems to be fair, just, and reasonable.

4. The salaries of EKP questioned by the Attorney General but given a blessing by the Commission were increased following the settlement agreement which would have been disclosed to the Commission had the base rate application as required in THE ORDER, been filed. The Commission in THE ORDER discusses the need to be cognizant of current economic conditions when fixing salaries. The Commission has even criticized GRAYSON for a 3% increase given its employees while also seeking a rate increase. The Commission should also consider these increases given by EKP following the January 2011 Order especially since its President and CEO has now, a salary, in excess of \$600,000.00 per year, its Chief Operating Officer a salary now, in excess of \$325,000.00, its Chief Financial Officer as well has a salary of \$325,000.00, and its general counsel has a salary in excess of \$250,000.00. The Commission, should further undertake all inquiries of an exhaustive nature, to determine if EKP has implemented any type of special deferred compensation package, or any deferred compensation package for the above-listed positions and any other executive positions so as to obtain the full financial picture that East Kentucky Power was to provide in THE ORDER and in a subsequent base rate application.

Furthermore, EKP, has, based upon information and belief, reduced its number of employees rather than hiring additional employees as was suggested in the within case.

Clearly then, the Commission should address the salary and wages as part of the analysis requested herein in the same manner that it has addressed same with respect to the other jurisdictional utilities who have sought rate relief before the Commission including GRAYSON.

5. An order should be entered directing EKP to demonstrate whether the interest rate provided for long term debt and its current credit facility are in line with the interest rate utilized by the Commission in THE ORDER or whether its interest is actually less. If the interest is actually less, then the rate provided for in THE ORDER should correspondingly be reduced.

6. The Commission should further make an inquiry into the impact on the financial picture of EKP as a result of its participation in PJM. It is believed that EKP commenced its relationship with PJM in June of 2013 and that an enhancement of the financial picture as a result of same would be, a fact about which the Commission should be knowledgeable. This should have resulted in less costs to EKP and a resultant increase in margins and increase in TIER.

7. The Commission should further prohibit EKP from passing on any interest charge to the distribution cooperatives including GRAYSON, related to the regulatory asset granted in PSC Action No. 2010-00449 unless a specific dollar amount can be demonstrated to the Commission that has been attributable to the actual amount of the regulatory asset. It is believed by GRAYSON that EKP has, in rates that it has exacted, has included an interest expense related to the regulatory asset. However, that interest amount is, apparently, derived from the settlement agreement to which GRAYSON was not a party and appears to be an arbitrary number not related to actual figures. The figures utilized by EKP in the settlement agreement should be disclosed in order for there to be transparency and full

knowledge given to GRAYSON and any other distribution cooperatives who seek intervention.

8. Since EKP has generated the revenues as shown on the attached exhibits, and as set forth herein that are at levels significantly higher than were set forth in its load forecast and test year figures and since the revenues have resulted in increased monthly charges to the end users, i.e. nearly 550,000 people throughout the Commonwealth of Kentucky, and since GRAYSON did not approve something that was supposedly to be in its best interest, then the Commission should grant the relief herein requested, so as to ensure that GRAYSON and its members fairly treated and have wholesale power rates that are in fact "fair, just, and reasonable".

RESPECTFULLY SUBMITTED,

W. JEFFREY SCOTT, P.S.C.

BY:______________________________

W. JEFFREY SCOTT
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This is to certify that the foregoing has been served upon the parties by mailing a true and correct copy of same to:

Office of the Commonwealth of Kentucky Attorney General
By mailing a copy to Assistant Attorney General
Hon. Lawrence W. Cooke
1024 Capital Center Drive – Suite 200
Frankfort, KY 40601-8204

Hon. Mark David Goss
GOSS SAMFORD, PLLC
2365 Harrodsburg Road - Suite B325
Lexington, KY 40504

Mr. Anthony "Tony" Campbell, President & CEO
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P.O. Box 707
Winchester, KY 40392-0707

Hon. Michael L. Kurtz
Boehm, Kurtz, and Lowry
36 East 7th Street – Suite 1510
Cincinnati, OH 45202

This 15th day of April, 2014.

____________________________________.

AFFIDAVIT

Comes now the Affiant, Don Combs, after first being duly sworn deposes and states as follows:

1. The Affiant is the Manager of Finance and Administration at Grayson Rural Electric Cooperative Corporation, a member/owner of East Kentucky Power Cooperative.
2. The Affiant routinely has available to him, as provided by East Kentucky Power Cooperative on a monthly basis, monthly margin information for East Kentucky Power, year-to-date margins and other financial information. The Affiant has reviewed the information above-mentioned and has, based upon same, prepared a spreadsheet that is attached hereto as an exhibit setting forth the monthly margins of East Kentucky Power year end margins, budgeted margins, and other information such as TIER and other information as set forth thereon.
3. Based upon the figures supplied by East Kentucky Power Cooperative, the Affiant states that the attached exhibit is accurate and is based upon the information provided by, solely, East Kentucky Power Cooperative.
4. Grayson Rural Electric Cooperative Corporation relies upon the monthly information submitted by East Kentucky Power in order to exercise its rights and obligations with respect to its ownership interest in East Kentucky Power Cooperative.

FURTHER THE AFFIANT SAYETH NAUGHT.

DON COMBS

STATE OF KENTUCKY

COUNTY OF CARTER

Subscribed and sworn to before me by ***DON COMBS*** this 14th day of April, 2014.

Jeffrey Scott

NOTARY PUBLIC, KENTUCKY STATE AT LARGE

My commission expires: 7-9-16

Notary ID # 470284

	January	February	March	April	May	June	July	August	September	October	November	December
2010												
Margins	9.9	9.3	5.9	-4.2	4.1	0.6	-1.5	8.2	0.6	-7.1	-1	7
Budgeted	9.7	7.8	3.7	-5.3	-4	0.3	5	6.4	1.4	-5.1	0.6	8.1
YTD	9.9	19.2	25.1	20.9	25	25.6	24.1	32.3	32.9	25.8	24.9	31.9
Budgeted	9.7	17.5	21.2	15.9	11.9	12.2	17.2	23.6	25	19.9	20.5	28.7
TIER												
2011												
Margins	16.7	11.4	5.7	0.6	4.9	0.2	11.0	3.9	5.5	-1	-1	-2.0
Budgeted	9.1	6.5	3.2	-4.8	-6	-0.5	5.6	7	2	-3.8	1.4	12.3
YTD	16.7	28.1	33.8	34.4	39.3	39.5	50.5	54.4	59.9	58.9	57.9	55.9
Budgeted	9.1	15.6	18.8	14	8	7.5	13.1	20.1	22.1	18.3	19.7	32
TIER												
Equity												
2012												
Margins	13.7	11.8	5	0.2	-0.1	10	10.5	2.9	0.8	-3.1	0.5	2.0
Budgeted	13.6	10	5.4	-3.1	-2.5	1.3	4.1	5.6	0.8	-3.6	3.8	10.5
YTD							51.4	54.3	54.4	51.3	51.8	53.9
Budgeted							28.8	34.4	35.2	31.7	35.5	46
Projected							61.1	58.2	57.8	53.7	56.5	53.9
Budgeted YE margins							46.0	46.0	46.0	46.0	46.0	46.0
TIER							1.50	1.49	1.44	1.42	1.44	1.47
Projected							1.54	1.53	1.51	1.51	1.49	1.47
Equity							11.4	11.5	11.6	11.3	11.3	11.0
Projected							11.9	11.7	11.6	11.6	11.5	11.0
Capital							61,168	66,488	72,814	84,440	92,866	110,346
Total 2102 Budget									119,010			
Cost to Members							67.66	67.56	67.85	67.99	68.49	68.98
Projected							69.62		68.95	68.81	68.79	68.98
Off System sales							119,083					
2013												
Margins	16.6	11.3	6.2	-2.8	-3.6	6.4	10.2	6.6	3.9	4.5	3.4	6.4
Budgeted	13.9	10.6	5.4	-4.2	-4.1	2.4	5.8	7.4	1.8	-2.3	3.2	10.5
YTD	16.6	24.5	34.9	32.1	28.5	34.9	45.1	51.8	55.7	60.3	63.7	70.1
Budgeted	13.9	27.9	29.9	25.7	21.6	24	29.8	37.2	39	36.7	39.9	
Projected			52	52		55.1	58.2	58.6	59.9	67.1		
Budgeted YE margins			50.3	50.3		50.3	50.3	50.3	50.3	50.3	50.3	50.3
TIER	1.5	1.49	1.5	1.48	1.44	1.41	1.41	1.44	1.48	1.55	1.58	1.62
Projected			1.42	1.44		1.51	1.55	1.52	1.52	1.59	1.6	1.62
Equity	11.8	12.2	11.9	12	11.8	11.9	12.4	12.5	12.8	12.7	12.7	12.8
Projected			11.8	12.4		12.7	13	12.9	12.9	12.9		12.8
Capital	1,419					23	24.6		39.7	41	46.3	52.8
Total 2102 Budget	7,166					64	71			90.7	95.8	100.7
Cost to Members	67.96	68.78	68.3	68.89	69.52	70.22	70.15	69.94	69.93	69.58	69.51	69.54
Projected	69.11	69.11		68.89		69.38	69.56	69.44	69.38	69.2		69.54
2014												
Margins	24.4											
Budgeted	14.9											
YTD	24.4											
Budgeted	14.9											
Projected												
Budgeted YE margins												
TIER	1.34											
Projected												
Equity	13.5											
Projected												
Capital	3.6											
Total 2014 Budget	4.4											
Cost to Members	68.8											
Projected	68.68											