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April 24, 2014

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APR 24 2014

PUBLIC SERVICE COMMISSION

Via Hand Delivery

Mr. Jeffrey Derouen
Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

Re: In the Matter of: Application of East Kentucky Power Cooperative, Inc. for a General Adjustment of Electric Rates PSC Case No. 2010-00167 (Closed)

Dear Mr. Derouen:

Enclosed please find for filing with the Commission in the above-referenced case an original and ten (10) copies of East Kentucky Power Cooperative, Inc.'s Response to Grayson Rural Electric Cooperative Corporation's Motion to Reopen. Please return a file-stamped copy to me.

Do not hesitate to contact me if you have any questions.

Sincerely,

Mark David Goss

Enclosures

M:\Clients\4000 - East Kentucky Power\1800 - Grayson Litigation\
Correspondence\Ltr. to Jeff Derouen (2010-00167) - 140424

COMMONWEALTH OF KENTUCKY

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APR 24 2014
PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)
COOPERATIVE, INC. FOR A GENERAL)
ADJUSTMENT OF ELECTRIC RATES)

Case No. 2010-00167
(CLOSED)

EAST KENTUCKY POWER COOPERATIVE, INC.'S RESPONSE TO GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION'S MOTION TO REOPEN

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by counsel, pursuant to 807 KAR 5:001, Section 5(2), and, for and as its response to the Motion to Reopen filed by Grayson Rural Electric Cooperative Corporation ("Grayson") in the above-captioned, closed proceeding, respectfully states as follows:

I. Introduction

The Liberty Management Consulting Group ("Liberty") published management audit reports of EKPC in 2001 and again in 2010. EKPC's low equity ratio was identified as a major risk to EKPC's future on both occasions. The 2010 Liberty Management Audit ("Management Audit") concluded that EKPC's low equity was the product of a bias for low rates at the expense of EKPC's financial health and that this bias presented a fundamental conflict of interest for EKPC's Board, which is comprised of one representative of each of EKPC's Members. The Management Audit resulted in many, many important changes to EKPC's corporate governance and strategic planning processes. Few of these changes were easy, but all of them were necessary. The benefits of these corporate governance changes are now tangibly manifesting themselves in the form of higher margins, more disciplined cost controls, operational efficiencies and fleet optimization made possible by integration into PJM, and lower overall interest expenses, among others. EKPC's equity ratio is improving, which is the best evidence that the recommendations in the Management Audit have been implemented and are working.

Grayson's Motion to Reopen challenges the fundamental conclusion of the Management Audit that EKPC must build equity in order to achieve financial strength. Grayson believes that EKPC is building equity unnecessarily and should be made to reduce its rates. Thus, what is at stake is much more profound than whether EKPC's 2010 rate case should be reopened, but whether EKPC's Board should be compelled by the Commission to reverse the gains that have thus far been made in improving EKPC's financial condition. Grayson's attempt to bolster its own weak financial condition by taking money out of EKPC began with an unfounded complaint in the Mason Circuit Court and now continues with an improper and equally unfounded Motion to Reopen the 2010 rate case. The consistent theme of each of these proceedings is that when Grayson disagrees with a decision made in the EKPC Boardroom, it seeks to use the resources of the judiciary and the Public Service Commission ("Commission") to compel its desired outcome.

The latest iteration of Grayson's attempt to usurp the authority of EKPC's Directors and management takes the form of a motion to re-litigate issues that were decided three and a half years ago in a case to which Grayson was not even a party. While Grayson's Motion to Reopen is both procedurally defective and substantively erroneous, it confirms that Grayson actively disagrees with the direction, corporate philosophy and strategic plans of EKPC that were forged through the Management Audit. Grayson's efforts to overturn the improvements made in EKPC's corporate governance must be resisted. Accordingly, EKPC respectfully requests that the Commission deny Grayson's Motion to Reopen and instead consider initiating a comprehensive audit of Grayson's governance and management practices.

II. Argument

A. Grayson's Motion to Reopen is Procedurally Defective

Grayson lacks standing to file the Motion to Reopen because it was not a party to this proceeding and did not participate in the case in any manner. Neither the Commission's specific precedent nor broader Kentucky law contemplates the re-opening of a closed administrative proceeding upon the motion of a non-party. Certainly, Grayson's Motion to Reopen fails to cite a single authority to support its request. Nowhere in KRS Chapter 278 is it expressed or contemplated that a person who is not a party to a proceeding may request the Commission to reopen a closed proceeding three and a half years later.

Even if it was procedurally appropriate for a non-party to request the Commission to reopen a case, Grayson's specific reasoning for such requested relief fails to satisfy the Commission's precedent on the question. As demonstrated below, Grayson's Motion to Reopen is based upon events that have transpired after the Commission entered its January 14, 2011 Order ("Rate Order"), which brought this proceeding to a close. The Commission has previously held that "changes in facts and circumstances significant to [a] matter" are an insufficient basis to justify re-opening a closed proceeding.[1] Likewise, if one were to strip away the specific factual assertions made by Grayson – virtually all of which are demonstrably false and misleading – and focused upon Grayson's over-arching point that it does not believe that EKPC's rates are fair, just and reasonable, then Grayson's requested remedy is still

[1] *See In the Matter of: The Application of NANPA on Behalf of the Kentucky Telecommunications Industry for Approval of NPA Relief Plan for the 270 NPA, and Number Conservation Measures Within Kentucky*, Order, Case No. 2006-00357 (Ky. P.S.C., Oct. 30, 2008).

inappropriate. The time to challenge the reasonableness of the Commission's Rate Order was in the period immediately after the Rate Order was entered – not years later. On this point the Commission has held that it will "not entertain any motion to reopen [a case] to address any matters that were or could have been presented here."[2]

Grayson's counsel is no stranger to the Commission and must surely be aware that if his client believes that EKPC's rates are unfair, unjust or unreasonable, then KRS 278.260 and KRS 278.270 afford Grayson the proper procedural basis for asserting those claims. Yet, rather than pursue this well-established and familiar statutory process, Grayson has instead filed a motion that has no foundation in fact, the legal authority of KRS Chapter 278 or the Commission's regulations as promulgated in 807 KAR 5. The only conceivable reason for seeking to reopen a case to which it was not a party, as opposed to filing a complaint in its own name, is to improperly shift the burden of proof. If Grayson's motion is granted, then the burden of proof would be upon EKPC as the applicant in the rate case whereas Grayson, as a complainant, must bear the burden of proof in any formal complaint which it may file.[3] Grayson's unwillingness to raise its allegations in the form of a verified complaint is itself strong evidence that it knows its claims cannot withstand scrutiny. One need look no further than the fact that Grayson's own Director on the EKPC Board has not only been part of the deliberations on each of the substantive issues raised in the Motion to Reopen – he has also voted in favor of each of the items of which Grayson now protests.

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[2] *See In the Matter of the Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky*, Order, Case No. 2005-00467 and Case No. 2005-00472 (Ky. P.S.C., May 26, 2006).

[3] *See Energy Regulatory Commission v. Kentucky Power Co.*, 605 S.W.2d 46, 49 (Ky. App. 1980); *In the Matter of The Office of the Attorney General, The Commonwealth of Kentucky v. Atmos Energy Corporation*, Order, Case No. 2005-00057 (Ky. P.S.C., Feb. 2, 2006).

B. Grayson's Motion to Reopen is Riddled with Factual Errors, Unsupported Claims and Misleading Assertions

1. Member Verifications and Acknowledgements

Paragraph one of Grayson's Motion to Reopen contains the most revealing admission of the entire filing; yet that admission has nothing to do with EKPC and highlights Grayson's own disorganization and willingness to litigate without first conducting any reasonable investigation of essential facts. Grayson correctly states that the Rate Order required EKPC to file "fully executed verification and acknowledgement 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."[4] But Grayson's accuracy ends there as it next claims that the settlement agreement filed in this case and approved in the Rate Order "is a settlement agreement that has never been approved by Grayson nor the other distribution cooperatives." This declaration is based upon nothing but the supposition that, "[i]t is believed by Grayson that such verification and acknowledgement has not been executed, nor asked to be executed nor certainly filed with the Commission." Thus, Grayson contends, "EKPC should be issued a show cause order concerning its failure to file same with the Commission."

In reality, Grayson's Verification and Acknowledgement was signed by its President and Chief Executive Officer on January 21, 2011 and then filed with the Commission on January 24, 2011,[5] just as the Rate Order required. It is inconceivable that Grayson would be unaware of the existence of the Verification and Acknowledgement signed by its highest corporate officer. This alone confirms that Grayson's due diligence in preparing the Motion to Reopen was either insufficient or that its records are not maintained in such a manner that important documents

[4] Rate Order, p. 23.

[5] A copy of the Verification and Acknowledgements, bearing the Commission's January 24, 2011 file-stamp, are filed collectively hereto as Exhibit 1.

such as this may be readily located and reviewed. Apparently, had the Commission requested the Verification and Acknowledgment signed by Grayson's President, Grayson would have been unable to locate or produce said document. What is even more embarrassing for Grayson, however, is the fact that the Verification and Acknowledgement which it does not believe it signed and apparently has no record of in its files is actually freely available to the public on the Commission's own website.[6]

Paragraph one of the Motion to Reopen is incorrect in every material respect. Rather than issuing a show cause order against EKPC as Grayson requests, the Commission should instead consider: (1) issuing a show cause order against Grayson's counsel for filing a motion without conducting any minimum due diligence to support the claims asserted therein; and (2) instituting a comprehensive management audit of Grayson's governance and management practices. Otherwise, Grayson's attempts to blame EKPC for its own financial difficulties will continue and needless time and resources will continue to be wasted on unnecessary proceedings.

2. EKPC's Margins and TIER

Paragraph two of Grayson's Motion to Reopen is equally misinformed. Before delving into the specific errors in Grayson's interpretation of the Rate Order, it is helpful to first demonstrate two false assumptions underlying Grayson's apparent rationale. First, Grayson repeatedly points to inconsistencies between EKPC's forecasted margins for the end of a given fiscal year with the actual margins achieved as evidence that EKPC somehow manipulated its TIER. What Grayson fails to fully consider is that all forecasted margins are simply a prediction of what future actual margins may be realized. As with all predictions, forecasting margins is difficult to do in light of the high correlation between utility revenues and weather patterns.

[6] *See* http://www.psc.ky.gov/PSCSCF/Post%20Case%20Referenced%20Correspondence/2010%20cases/2010-00167/20110124_EKPC%20Member%20Systems_Verification%20and%20Acknowledgement.pdf

Moreover, Grayson forgets that the forecasted margins for each December are established as part of EKPC's annual budget process – meaning that budgeted margins for December are estimated approximately fifteen months in advance. Thus, the forecasted margin for December 2011 would have been set in September 2010. The volatility in weather, and therefore margins, is vividly illustrated in Grayson's citation to EKPC's January 2014 financial results. There is simply no way that EKPC could have predicted, in September 2013, the polar vortexes that repeatedly swept through Kentucky just four months later. Grayson's reliance upon forecasted margins as evidence of EKPC's "poor financial performance" is akin to asking the umpire at a baseball game to immediately call a rain delay for a game scheduled to be played sometime next season. Grayson's analytical method is flawed and has no real value in this context.[7]

Second, Grayson implies that EKPC's TIER in 2011, 2012 and 2013 was the result of capitalizing costs that should have been expensed or the product of improper accounting adjustments. Despite having access to EKPC's detailed financial reports and annual reports, Grayson fails to identify any particular such offense, however. It merely makes yet another unsubstantiated, sensational claim. In fact, EKPC utilizes an independent auditor to assure that its financial reports are fairly stated. Moreover, the auditor retained by EKPC is itself subject to industry wide professional standards and quality controls.[8] Auditors must conduct audits in

[7] EKPC also questions the source for the data included in the spreadsheet attached to Mr. Combs' affidavit. It appears to reveal confidential information that is shared with EKPC's Directors. Disclosing such data publicly would amount to a violation of a confidentiality and non-disclosure agreement signed by Grayson's Director on the EKPC Board and by its President.

[8] For instance, the American Institute of Certified Public Accountants requires that audit firms follow professional standards and establish a system of quality control to provide reasonable assurance that the firm performs engagements and reports on them in conformity with applicable professional standards. This system of quality control is subjected to a System Review every three years whereby another audit firm determines whether the firm's system of quality control is designed and complied with to provide reasonable assurance of the firm performing and reporting in conformity with applicable professional standards, in all material respects.

accordance with Generally Accepted Auditing Standards (GAAS) (AU 150).[9] EKPC's independent auditor "passed" its peer review, followed GAAS, and issued a "clean" opinion, so readers of EKPC's financials can be assured that the financial statements presented fairly, in all material respects, the financial position of EKPC as of December 31, 2011 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Further, the December 31, 2011 notes to the audited financial statements clearly state in Rate Matters the requirements of the Rate Order and the fact that EKPC didn't exceed a 1.50 TIER. Accordingly, no refund was due to Grayson.

Once Grayson's two faulty analytical assumptions are corrected, the logic of the remaining assertions in paragraph two of its Motion to Reopen quickly unravels. First, the simple fact is that EKPC's audited financial performance for 2011 resulted in a TIER of 1.48. This should not be surprising because the Rate Order approved a settlement agreement that was specifically targeting a 1.50 TIER.[10] In other words, the rates approved by the Commission very closely achieved the result they were intended to accomplish.[11] Second, Grayson's understanding that EKPC must file a new rate case whenever its TIER exceeds 1.50 is plain wrong and not in accordance with the terms of the settlement agreement and the Rate Order. Grayson alleges that the Rate Order requires EKPC to file a rate case because its TIER exceeds 1.50 in 2013. The Rate Order plainly only required a TIER test to be applied in 2011.[12]

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[9] Auditing standards provide a measure of audit quality of objectives to be achieved in an audit. Prior to 2012, there were ten auditing standards covering general, field work, and reporting requirements that had to be followed in performing an audit.

[10] *See* Rate Order, p. 19 ("The Commission has found that EKPC's proposed TIER of 1.50 is reasonable in light of the findings and recommendations contained in the Liberty Report. Applying the findings herein on the reasonable cost of debt and a TIER of 1.50 would result in a justifiable revenue increase of $43,846,946.").

[11] The rates approved in the Rate Order are actually below the amount which the Commission found EKPC could justifiably receive. *See* Rate Order, p. 19.

[12] *See* Rate Order, p. 4.

3. Consideration and Approval of the 2010 Rate Case Settlement

Paragraph three of the Motion to Reopen includes a request that Grayson be allowed to intervene in EKPC's 2010 rate case. Beyond the facial absurdity of the request, it bears emphasis that Grayson offered no justification as to its specific qualifications to intervene as required by 807 KAR 5:001, Section 4(11). Grayson then proceeds to chiefly criticize the process by which the settlement agreement approved in the Rate Order was adopted by EKPC's Directors. Grayson alleges that EKPC's Board lacked adequate time to consider and debate the settlement agreement which was not finally negotiated until November 29, 2010 – the day before the Commission's scheduled hearing in the case. Grayson even recites a snippet from the Rate Order that says "the terms of the settlement had not been finalized" when EKPC's Board approved the settlement agreement.

Grayson's characterization of these events is frankly disingenuous. The resolution adopted by EKPC's Board shows that the terms and conditions of the settlement agreement were described thoroughly.[13] Moreover, the Board specifically authorized EKPC's management to make any non-material changes which were necessary to timely present the settlement to the Commission.[14] Grayson also fails to mention that the Rate Order goes on to state that the November 30, 2010 hearing was limited solely to learning the status of the settlement discussions and taking public comments on issues presented in the case.[15] A second hearing was held on December 9, 2010, which was six days after the executed settlement agreement was filed

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[13] *See* Resolution adopted by the EKPC Board at a Special Meeting held on November 29, 2010, a copy of which is attached hereto as Exhibit 2.

[14] *See id.*

[15] *See* Rate Order, p. 2.

with the Commission.[16] Grayson, of course, fails to disclose this as well. The record of this proceeding clearly demonstrates that the rates established in the Rate Order are less than those requested by EKPC in its Application and less than even that which the Commission found EKPC could have reasonably justified.

Grayson also fails to acknowledge that its Director not only voted to adopt the settlement agreement, but that he never raised any subsequent objections, nor did Grayson's Board, President, CFO or counsel. Grayson's Motion to Reopen implies that it lacked the ability to present any such objections because of the lack of time and transparency. This implication is equally unsupportable. Grayson certainly did not object to the Commission's contemporaneous approval of the pass-through rates in its companion case. After the pass-through rate order was entered, Grayson did not seek rehearing or file an action for judicial review.[17] The assertion that neither "Grayson nor any of the other distribution cooperatives had ever seen the settlement agreement before its adoption," again tells us more about Grayson's lack of diligence than it does about EKPC's rate case. Again, the settlement agreement was filed with the Commission and posted to its website on December 3, 2010, nearly a full week before the hearing. Grayson's Director on the EKPC Board participated in a call on November 29, 2010 to discuss the key terms of the settlement and voted to approve the settlement agreement. To now claim that Grayson had no notice of the proposed settlement is ridiculous.

[16] *See* EKPC's Motion for Leave to File Settlement Agreement, Case No. 2010-00167 (filed Dec. 3, 2010).

[17] *See In the Matter of the Application of Grayson Rural Electric Cooperative Corporation for Pass-Through of East Kentucky Power Cooperative, Inc. Wholesale Rate Adjustment*, Final Order, Case No. 2010-00174 (Ky. P.S.C., Jan. 14, 2011).

4. Salaries and Wages

Paragraph four of Grayson's Motion to Reopen opens with a recitation of the factually inaccurate statement that EKPC was required to file another base rate case. Grayson then lists the compensation figures of EKPC's most senior managers and asserts that the Commission should examine all of EKPC's executive compensation figures, presumably because they are somehow unreasonable. Once again, Grayson's assertions offer an implication that is not supported by facts.

First, Grayson does not acknowledge what its Director on EKPC's Board and its President should know – the EKPC Chief Executive Officer's compensation is established through a detailed process that involves the input of all of EKPC's Directors and is led by Ms. Monica Schmidt, an expert in cooperative corporate governance who is affiliated with the National Rural Electric Cooperative Association ("NRECA") and who has provided cooperative corporate governance expertise to EKPC throughout the Management Audit process and to the present. The compensation for other executives is also determined in accordance with a detailed process and written policy, in consultation with independent experts.

Second, Grayson does not acknowledge that EKPC's executive compensation is actually well below that of leaders of other large electric generation and transmission utilities in Kentucky. According to industry trade publications, the senior executives of one investor owned utility in Kentucky earned total compensation packages between $2.6 million and $11.6 million in 2010, the year EKPC filed the rate case.[18] While cooperatives have traditionally offered less compensation than investor owned utilities, EKPC's Board engaged experts in executive compensation in 2012 to review benchmark data to determine the extent to which EKPC's executive compensation was competitive with other generation and transmission cooperatives.

[18] *See* http://www.snl.com/InteractiveX/CorporateCompensation.aspx?ID=4057048&view=1

What the Board, including Grayson's Director, learned was that EKPC's total compensation (salary + incentives + benefits) was 30% below the market median. Discussions between EKPC's Directors occurred in both the plenary meetings of the Board as well as in the meetings of the Board's Strategic Issues Committee. All of this culminated in the adoption of an Executive Benefit Plan in November 2012. Even with that change, however, EKPC's current executive compensation still remains below the market median identified in 2012. If anything, EKPC's executive compensation figures show that it is still at a competitive disadvantage in attracting and retaining top-flight executive talent.

The third aspect of Grayson's criticism of EKPC is paradoxical. In essence, Grayson argues that EKPC should be made to have a new rate case because it has managed to save money through cost-containment measures and operational efficiencies. The nonsensical nature of this allegation requires no substantive response, but it is ironic that Grayson would criticize EKPC for exercising discipline in controlling wage costs at the same time the Commission has already noted Grayson's penchant for spending money it does not have on wage increases.[19]

5. Interest Rate Expense

Paragraph five of the Motion to Reopen simply states that EKPC should be compelled to provide updated interest rates for its long-term debt and credit facility so that those rates might be compared to the interest rates EKPC was paying during the test year used in this proceeding. Again, the implication of Grayson's Motion to Reopen is that EKPC should be compelled to

[19] *See In the Matter of the Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Electric Rates*, Final Order, Case No. 2012-00426, p. 14 (Ky. P.S.C., July 31, 2013):

> The Commission is of the opinion that Grayson has not been prudent in awarding wage and salary increases during a time of difficult financial circumstances. The amount and timing of Grayson's wage and salary increases, in addition to other factors discussed herein, have eroded Grayson's TIER, debt-service coverage ratios, and equity position. During poor economic conditions, management and the Board of Directors must exercise sound judgment in making financial decisions to avoid the type of financial situation Grayson finds itself in.

issue a refund if it has managed to save money by lowering overall interest expense. Grayson's request further demonstrates a lack of awareness of the information routinely disclosed by EKPC to the Commission regarding its interest expense and a much more fundamental misunderstanding of the ratemaking process itself.

For instance, interest expenses are routinely disclosed in EKPC's: (1) monthly RUS Form 12 filing; (2) monthly financial report filing required by Case No. 2006-00472;[20] and (3) annual FERC Form 1 filing. In addition, EKPC's Annual Report – which is published on EKPC's website, provided to its Members and filed with the Commission – contains information on interest expense, the average blended interest rate, and a listing of the various debt instruments (long-term and credit facility) along with the stated interest rates. EKPC also routinely provides the interest rates on all long-term debt in the six-month and two-year environmental surcharge filings. This particular type of filing has been made five times since the rates approved in the Rate Order were set. In addition to recurring filings, EKPC has had several cases since the Rate Order was entered which have disclosed interest rates, including: Case No. 2011-00125, where the Commission approved a purchased power agreement with Ameren;[21] Case No. 2011-00204, where the Commission approved a financing application relating to EKPC's credit facility;[22] and

[20] *See In the Matter of the Application for a General Adjustment of Electric Rates by East Kentucky Power Cooperative, Inc.*, Case No. 2006-00472.

[21] *See In the Matter of the Application of East Kentucky Power Cooperative, Inc. for Approval to Enter into a Three-Year Purchased Power Agreement*, Case No. 2011-00125.

[22] *See In the Matter of the Application of East Kentucky Power Cooperative, Inc. for Approval of an Unsecured Revolving Credit Agreement for a Term of up to Five Years and in an Amount up to $500,000,000*, Case No. 2011-00204.

Case No. 2013-00259, where the Commission approved a CPCN application and amendment to EKPC's environmental surcharge.[23]

In addition, Grayson's fixation on interest rate expenses is contrary to the Commission's long-standing preference to avoid engaging in single-issue ratemaking. While the Commission has authority to choose any rate mechanism which results in rates that are fair, just and reasonable,[24] it has historically avoided invitations to establish new rates for a utility based primarily upon only one or two factors.[25] But this is exactly what Grayson is proposing the Commission should do. Like other costs incurred by a utility, interest rates will fluctuate based upon a number of circumstances and factors – some of which are within the control of EKPC and many of which are beyond its control. Accounting for the variability of interest rates is an embedded component of the environmental surcharge mechanism, but that is simply not possible in the context of EKPC's base rates, as Grayson naively suggests.

Grayson also ignores the extent to which lending institutions and credit rating agencies have rewarded EKPC for its stronger financial performance with improved credit ratings and lower borrowing costs. This in turn has allowed EKPC to reduce interest expense in a variety of ways. In Case 2012-00249,[26] the Commission approved EKPC's request to replace its RUS

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[23] *See In the Matter of the Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for Alteration of Certain Equipment at the Cooper Station and Approval of a Compliance Plan Amendment for Environmental Surcharge Cost Recovery*, Case No. 2013-00259.

[24] *See National-Southwire Aluminum Co. v. Big Rivers Elec. Corp.*, 785 S.W.2d 503, 512 (Ky. App. 1990).

[25] *See In the Matter of the Application of Louisville Gas and Electric Company for Approval of New Rate Tariffs Containing a Mechanism for the Pass-Through of MISO-Related Revenues and Costs Not Already Included in Existing Base Rates*, Order, Case No. 2004-00459 (Ky. P.S.C., Dec. 22, 2004) ("Although the Commission has, in limited instances, previously engaged in single-issue rate-making, those instances were either specifically authorized by statute or the result of a unanimous agreement by all parties with approval by the Commission."); *cf. Kentucky Public Service Comm'n v. Commonwealth of Kentucky, ex. rel. Conway*, 324 S.W.3d 373, 381-82 (Ky. 2010).

[26] *See In the Matter of the Application of East Kentucky Power Cooperative, Inc. for Approval to Obtain a Trust Indenture*, Order, Case No. 2012-00249 (Ky. P.S.C., Aug. 9, 2012).

mortgage with a trust indenture in order to achieve greater flexibility in obtaining financing. The Commission favorably commented upon EKPC's move to a trust indenture, stating:

> The Commission is encouraged by EKPC's decision to address its future financing requirements in a proactive manner which will increase its access to capital markets and improves its ability to adapt to the ever-changing landscape of the electric utility industry. While the MFI financial compliance test will be more restrictive than RUS's existing TIER requirements, EKPC has exhibited increased attention to its financial metrics in recent years. *This is evidenced by EKPC's commitment to build its equity position, as demonstrated in its most recent general rate case.*[27]

In Case No. 2013-00306, the Commission approved EKPC's request to issue up to $200 million in secured private placement debt, to extend an amended Credit Facility in an amount up to $500 million for up to five years and to use interest rate management practices to reduce interest costs. In so doing, the Commission commended EKPC by stating:

> The improvements in the credit markets, combined with the view that EKPC is less risky today than it was just over two years ago, have allowed it to negotiate more favorable pricing terms for both the proposed secured private placement debt and the amended and extended Credit Facility. The Commission commends EKPC for taking advantage of the financing alternatives available to it, thereby securing savings for itself, its member-owners and their retail customers.[28]

In March of 2013, Standard & Poor's increased the outlook on EKPC's BBB credit rating from "Stable" to "Positive." Most recently, on October 25, 2013, Fitch raised EKPC's credit rating from BBB to BBB+.[29] EKPC's turnaround has been cited by credit experts as a model for

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[27] *Id.*, at p. 3 (emphasis added).

[28] *See In the Matter of the Application of East Kentucky Power Cooperative, Inc. for Approval of the Issuance of $200,000,000 of Secured Private Placement Debt, for the Amendment and Extension of Unsecured Revolving Credit Agreement in an Amount up to $500,000,000 and for the Use of Interest-Rate Management Instruments*, Order, Case No. 2013-00306, p. 9 (Ky. P.S.C., Sept. 27, 2013).

[29] *See* Fitch Rating of EKPC (Oct. 25, 2013), a copy of which is attached as Exhibit 3.

other cooperatives to emulate.[30] While EKPC is pleased with its record of improvement, it believes there is still much room for improvement. A survey of similarly situated generation and transmission cooperatives demonstrates that many other such cooperatives currently achieve credit ratings in the "A" and better range.[31]

What is perhaps most ironic about this portion of the Motion to Reopen is that, while Grayson is expressing concern with EKPC's reduced interest rate expense, its Directors and officers have demonstrated a significant level of unfamiliarity with Grayson's own financial metrics. For instance, in depositions taken in related litigation in the Mason Circuit Court, it was discovered that Grayson's Directors were often themselves uncertain of the value of the company's assets;[32] liabilities;[33] revenues;[34] margins;[35] and equity.[36] Grayson's Chief Financial Officer could only estimate its TIER and did not know Grayson's Debt Service Coverage ("DSC") ratio.[37] Any objective review would demonstrate that EKPC has taken great leaps in bringing order and discipline to its financial condition whereas Grayson's future financial

[30] *See In the Matter of the Application of Big Rivers Electric Corporation for a General Adjustment in Rates Supported by Fully Forecasted Test Year*, Hearing Record 16:47:10, Case No. 2012-00199 (Ky. P.S.C., hearing held Jan. 8, 2014).

[31] *See Cooperative Credit Ratings Report*, prepared by Barclays (Apr. 22, 2014), a copy of which is attached as Exhibit 4.

[32] *See* Deposition of Harold Dupuy, p. 72, lines 15-21; Deposition of Kenneth Arrington, p. 88, lines 10-17; Deposition of Eddie Martin, p. 46, lines 6-10; Deposition of William Rice, p. 13, lines 13-14. Copies of all of the deposition transcripts referenced herein are attached hereto collectively as Exhibit 5.

[33] *See* Deposition of Harold Dupuy, p. 72, lines 22-25; Deposition of Kenneth Arrington, p. 88, lines 15-18; Deposition of Eddie Martin, p. 46, lines 13-15.

[34] *See* Deposition of Don Combs, p. 54, lines 2-7; Deposition of Kenneth Arrington, p. 88, lines 2-9; Deposition of Eddie Martin, p. 46, line 24 to p. 47, line 2.

[35] *See* Deposition of Eddie Martin, p. 46, lines 11-12; Deposition of Don Combs, p. 54, lines 2-7; Deposition of William Rice, p. 13, line 37.

[36] *See* Deposition of Don Combs, p. 54, lines 8-11; Deposition of Harold Dupuy, p. 73, lines 1-6; Deposition of Kenneth Arrington, p. 87, lines 10-18; Deposition of Carol Fraley, p. 240, lines 8-22; and Deposition of Eddie Martin, p. 46, lines 20-23.

[37] *See* Deposition of Don Combs, p. 54, lines 12-22.

strength is unclear at best and its approach to monitoring its internal financial metrics is haphazard.

6. PJM Benefits

Paragraph six of the Motion to Reopen relates to EKPC's full integration into PJM in June of 2013 – an issue which most certainly was never part of the 2010 rate case. Grayson nevertheless requests the Commission to "make an inquiry into the impact on the financial picture of EKP[C] as a result of its participation in PJM." While begrudgingly conceding that joining PJM was financially beneficial to EKPC, Grayson suggests that the Commission is for some reason uninformed as to the status of EKPC's involvement in PJM. Of course, if it watched any of the hearings in which EKPC has appeared before the Commission over the past two years, Grayson would know full well that the subject of EKPC's involvement in PJM is a frequent subject of cross-examination – as it should be. Indeed, EKPC's recent CPCN case involving a project at the Cooper Station very much focused upon the economic value of EKPC's full participation in PJM and its efforts to optimize its generation portfolio as a result of such participation.[38] Had EKPC not been a fully-integrated member of PJM in January, it would have been unlikely to have been able to sustain the demand for electricity during the record-setting peak hours of the abnormally cold weather that affected Kentucky.

In addition to being unfamiliar with the nature and extent of EKPC's responsiveness to many Commission inquiries about PJM, Grayson also appears to be unaware of the Commission's mandate that EKPC must file: (1) "a rate mechanism to flow back to customers the PJM capacity market benefits" no later than November 30, 2015; and (2) an annual

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[38] *See In the Matter of the Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for Alteration of Certain Equipment at the Cooper Station and Approval of a Compliance Plan Amendment for Environmental Surcharge Cost Recovery*, Hearing Video Record, Case No. 2013-00259 (hearing held Jan. 14-15, 2014).

"comprehensive report detailing transmission rights, hedging strategies, and PJM benefits and costs…."[39] Grayson's attempt to compel some formal inquiry into the beneficial nature of PJM membership is unnecessary and misguided. Having not even had one full year of participation in PJM, such an inquiry is also impractical, premature and a waste of time and resources.

7. The Smith Unit 1 Regulatory Asset

Paragraph seven of Grayson's Motion to Reopen asks the Commission to bar EKPC from collecting any interest charge on the Smith Unit 1 regulatory asset, "unless a specific dollar amount can be demonstrated to the Commission that has been attributable to the actual amount of the regulatory asset."[40] As an initial concern, it is unclear as to what exactly Grayson is asking the Commission to ascertain – the specific dollar amount of annual interest on the Smith Unit 1 regulatory asset or the specific dollar amount of the regulatory asset itself. Either way, Grayson's Motion to Reopen again demonstrates a fundamental lack of awareness of the Commission's proceedings. First, the Rate Order plainly states, "[t]he parties agree that the amount of interest expense relating to Smith Unit 1 contained in the Settlement is $6 million plus TIER."[41] Second, in the case establishing the regulatory asset, the Commission plainly fixed its value at $157,388,715.[42] Grayson is once again filing claims without conducting any reasonable level of minimum due diligence.

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[39] *See In the Matter of the Application of East Kentucky Power Cooperative, Inc. to Transfer Functional Control of Certain Transmission Facilities to PJM Interconnection, LLC*, Order, Case No. 2012-00169 (Ky. P.S.C., Dec. 20, 2012).

[40] Motion to Reopen, ¶ 6.

[41] Rate Order, p. 4.

[42] *See In the Matter of the 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*, Order, Case No. 2010-00449 (Ky. P.S.C. Feb. 28, 2011).

Apart from its unfamiliarity with the settlement agreement approved by the Rate Order and the Commission's determination of the value of the regulatory asset, Grayson's real dispute is with the existence of the Smith Unit 1 regulatory asset itself. Grayson has been quite vocal that it does not believe it should pay the costs incurred by EKPC in acquiring the Smith Unit 1 assets.[43] In asserting this now, Grayson again refuses to acknowledge the fact that the Smith Unit 1 assets were only incurred after due consideration and approval by EKPC's Directors, including Grayson's Director. In 2011, the Commission specifically found that the costs of the planned Smith Unit 1 were prudently incurred and that EKPC's request to establish a regulatory asset for the amounts expended on Smith Unit 1 was also reasonable.[44] Grayson had full knowledge of these determinations at the time, but chose not to object or challenge them.

C. Grayson's Motion to Reopen is a Frontal Assault on the Improvements Made Through the Management Audit

Grayson's Motion to Reopen is so woefully inaccurate and misleading that it begs the question of just what Grayson hopes to accomplish by forcing the reopening of a rate case that was concluded over three years ago and in which it did not participate. The answer is simple and inescapable – Grayson is opposed to EKPC's strategic plan to improve its financial condition by increasing its equity ratio. This opposition arises by virtue of the fact that Grayson either still does not understand the nature of the conflict of interest that may arise in a cooperative structure or, even worse, it frankly is unwilling to adapt its own corporate governance standards to the modern, best practice standards which EKPC adopted and embraced following the issuance of the Management Audit report. This is not just idle speculation. EKPC has good reason to

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[43] *See e.g.* Letter from Carol Fraley to Grayson's Members, as published in *Kentucky Living* magazine in January 2013, a copy of which is attached as Exhibit 6.

[44] *See In the Matter of the 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*, Order, Case No. 2010-00449, pp. 6-7 (Ky. P.S.C. Feb. 28, 2011).

believe that Grayson prefers for EKPC to reduce its rates so that Grayson may put off the more difficult choices about its own financial condition and, to that end, Grayson's own records demonstrate that it has been seeking to undermine EKPC's strategic goal of building equity ever since the Rate Order (which acknowledged EKPC's commitment to implementing the Management Audit's recommended reforms) was entered.

The Rate Order which Grayson attacks set in motion one of the key initiatives identified in the Management Audit – the need for EKPC to strategically build equity. EKPC's Board adopted a strategic plan in 2011 that called for a 15% equity ratio to be achieved by 2015. The Board's strategic plan indicated that this equity improvement should be accomplished by "employing a combination of margin improvement through aggressive management of staffing, costs and capital assets while balancing risk and reliability, reducing debt with excess cash flow and managing rates." Specific steps to be undertaken included: achieving an investment grade credit rating, evaluating new investments with sound financial principles and working to aggressively control costs while minimizing risk exposure. Grayson's complaints about EKPC's staffing levels, executive compensation, interest rate expenses and PJM integration all arise from the fact that EKPC's management is actively accomplishing the very objectives that the Board established in 2011. This is confirmed by the fact that EKPC's equity has grown from 7.4% in 2009 (when the management audit was underway) to 8.0% (when the Rate Order was entered) to 12.7% as of December 31, 2013. A rate increase planned for 2013 was indefinitely delayed by EKPC due to these strong results made possible by managerial discipline and strong Board oversight. The Commission has recognized these efforts and Chairman Armstrong was kind enough to include this statement at the end of letter formally concluding the Management Audit: "We recognize that it has been a challenge for EKPC and its member cooperatives to address the audit recommendations. We believe that the changes undertaken by EKPC in response to the management audit's recommendations have resulted in core changes within EKPC that will allow it to appropriately address the future."[45]

The positive comments from the Commission stand in stark contrast to Grayson's corporate records, which reveal a very different perspective on EKPC's objective of building financial strength. For instance, the same month that the Rate Order was entered, Grayson's Board discussed whether EKPC's proposal to bring equity levels to 15% was prudent.[46] By April of 2012, Grayson's own operating margin was essentially non-existent and Grayson's counsel and Directors discussed how to use the PSC to overrule EKPC's strategic plan:

> Legal Counsel Scott expressed frustration with EKPC for continuing to increase their equity and financial position to the detriment of the member owner cooperatives. He suggests that coops need to go to the PSC as a group, and request help in getting EKPC to lower rates to the Cooperatives. Director Dupuy pointed out that the PSC wanted EKPC to raise their equity level and they have. Legal Counsel Scott suggested that we bring before the EKPC Board a request that when EKPC reaches a certain financial position, the excess be refunded to the member owner Cooperatives. He stated the Cooperatives should go through the legal process and lay out their request in language that would stand up before PSC when needed.[47]

After initiating a lawsuit in the Mason Circuit Court in October 2012 – Grayson's President sent a letter to her colleagues (EKPC's other Member CEOs) to explain Grayson's

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[45] *See* Letter from David L. Armstrong to Tony Campbell (Feb. 18, 2013), a copy of which is attached as Exhibit 7.

[46] *See* Minutes of Grayson Board meeting held on January 21, 2011, p. 6, a copy of which is attached as Exhibit 8. These minutes were produced by Grayson in the course of litigation against EKPC in the Mason Circuit Court.

[47] *See* Minutes of Grayson Board meeting held on April 20, 2012, p. 2, a copy of which is attached as Exhibit 9. These minutes were produced by Grayson in the course of litigation against EKPC in the Mason Circuit Court. While Grayson may be unaware of it, EKPC has already begun the process of amending its bylaws to allow it to pay capital credits to Members when its equity reaches twenty percent, thereby lowering the requisite equity ratio threshold from the current forty percent level.

reasoning. Very prominently, Grayson's President tied discussions concerning the lawsuit to EKPC's equity policy and other issues:

> We have never had a reasonable explanation of what 20% equity will do for the Members Systems. We were told that EKPC's last financing package was well accepted and highly subscribed at the current equity rate. How much is sufficient and how much is too much on the backs of our members? We were also told this came from the Board. We maintain that the idea of 20% equity was put before the Board by Management without sound and reasonable explanation. EKPC's margins certainly reflect a sound financial position, which Grayson wholeheartedly supports. But should there not be acceptable and achievable levels that do not burden the Members Systems?[48]

Just prior to the mediation held in the Mason Circuit Court case, Grayson's Board met to discuss the points it would focus upon to resolve the civil action. Interestingly, Grayson's Board minutes reflect, "Director Arrington feels that if EKPC would work with [Grayson] on [the Memorandum of Understanding], Rates Restructuring, sale of Smith Assets and a sound Equity Policy, it would help us significantly. Legal Counsel Scott agreed. The general consensus of the Board was to focus on these points."[49] Grayson's settlement strategy had nothing to do with the facts of its lawsuit claiming an ownership interest in Charleston Bottoms RECC and everything to do with its disagreement with EKPC's new direction. Grayson's forum should it desire to challenge the strategic direction of EKPC is, of course, in the Boardroom, not the courtroom or hearing room. Rather than engage in this way, however, Grayson has chosen to instead embark upon two years of meritless and wasteful litigation against EKPC and its Members.

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[48] Letter from Carol Fraley to EKPC Member Managers (Nov. 16, 2012), a copy of which is attached as Exhibit 10. This letter continues to erroneously refer to "20% equity." EKPC does not know why Ms. Fraley continually refers to this equity target since EKPC's 2011 and 2013 Strategic Plans both articulate the "15% by 2015" equity target.

[49] Minutes of Grayson Board meeting held on April 22, 2013, p. 8, a copy of which is attached as Exhibit 11.

III. Conclusion

The Motion to Reopen – and all of the motivations and goals which underlie it – are far more consequential than simply asking that EKPC's rates be re-examined. Grayson is critical of EKPC because EKPC has achieved consistent financial improvement over the past three years. These improvements are the result of the hard work of management to follow the Board's direction to cut costs, improve credit ratings, lower interest expenses and achieve major operational efficiencies. Grayson's Motion to Reopen focuses upon each of these objectives and seeks to reverse these gains, asking the Commission to change its mind that building equity is a critical path to EKPC's continued growth and viability and, without acknowledging it, calling for the Commission to ignore the conflict of interest that gave rise to EKPC's past financial weakness in the first place. EKPC's Board is just as firmly committed to maintaining its gains in corporate governance and financial responsibility as it was when it accepted the findings and recommendations of the Management Audit, affirming them in this proceeding three years ago. There is simply no factual or legal basis to reopen the 2010 base rate case and Grayson's Motion to Reopen should therefore be denied.

Rather than complain about EKPC's successes and stronger financial condition, Grayson's energies and resources would be better expended focusing on its own woeful financial condition and poor management practices. Instead of re-opening EKPC's 2010 rate case, the Commission should strongly consider ordering that Grayson submit to a comprehensive corporate governance and management audit pursuant to KRS 278.255.

WHEREFORE, on the basis of the foregoing EKPC respectfully requests as follows:

1) That Grayson's Motion to Reopen be DENIED;

2) That Grayson be Ordered to submit to a comprehensive governance and management audit and;

3) For any and all other relief to which EKPC may be entitled.

Done this 24th day of April, 2014.

Respectfully submitted,

Mark David Goss
David S. Samford
GOSS SAMFORD, PLLC
2365 Harrodsburg Road, Suite B-325
Lexington, KY 40504
(859) 368-7740
mdgoss@gosssamfordlaw.com
Counsel for East Kentucky Power Cooperative, Inc.

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing was served by depositing same in the custody and care of the U.S. Mails, postage pre-paid, on this 24th day of April, 2014, addressed to the following:

Jennifer B. Hans, Assistant Attorney General
Larry Cook, Assistant Attorney General
Office of Rate Intervention
Office of the Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

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

W. Jeffrey Scott
311 West Main Street
P.O. Box 608
Grayson, KY 41143

Counsel for East Kentucky Power Cooperative, Inc.

Frost Brown Todd LLC
ATTORNEYS

Mark David Goss
Member
859.244.3232
mgoss@fbtlaw.com

January 24, 2011

Via Hand-Delivery

Mr. Jeffrey Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED
JAN 24 2011
PUBLIC SERVICE
COMMISSION

Re: Case No. 2010-00167

Dear Mr. Derouen:

As required by the Commission's Order in the above-referenced case, dated January 14, 2011, please find enclosed for filing an original and 10 copies of the fully executed verification and acknowledgement statements from the each of the 16 member systems of East Kentucky Power Cooperative, Inc. Please note that South Kentucky RECC's executed verification and acknowledgement is a PDF copy; we will file the original upon receipt.

Very truly yours,

Mark David Goss by afd

Mark David Goss
Counsel

CC: Parties of Record

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**

VERIFICATION AND ACKNOWLEDGEMENT OF BIG SANDY RURAL ELECTRIC COOPERATIVE

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

> TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Big Sandy Rural Electric Cooperative does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: ______________________

Print Name: David Estepp

Title: President & General Manager

Date: 1-17-2011

STATE OF KENTUCKY

COUNTY OF Johnson

SUBSCRIBED AND SWORN to before me by David Estepp on this the 17th day of January, 2011.

My Commission Expires: 6-19-2014.

Judy L. McClure

NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF BLUEGRASS ENERGY COOPERATIVE CORPORATION

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

> TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Blue Grass Energy Cooperative Corporation does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: [signature]

Print Name: Daniel W. Brewer

Title: President and CEO

Date: 1/19/2011

STATE OF KENTUCKY

COUNTY OF Clark

SUBSCRIBED AND SWORN to before me by Daniel W. Brewer on this the 19th day of January, 2011.

My Commission Expires: MY COMMISSION EXPIRES NOVEMBER 30, 2013 NOTARY ID #409352 .

Gary M. Willoughby
NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF CLARK ENERGY COOPERATIVE INC.

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

> TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Clark Energy Cooperative Inc. does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Paul G. Embs

Print Name: PAUL G. EMBS

Title: President & CEO

Date: JAN 20, 2011

STATE OF KENTUCKY

COUNTY OF Clark

SUBSCRIBED AND SWORN to before me by Paul Emks on this the 20th day of January, 2011.

My Commission Expires: 8/22/2011.

Becky Profitt

NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF CUMBERLAND VALLEY ELECTRIC

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Cumberland Valley Electric does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Ted Hampton

Print Name: Ted Hampton

Title: Manager

Date: 1-20-11

STATE OF KENTUCKY

COUNTY OF Clark

SUBSCRIBED AND SWORN to before me by Ted Hampton on this the 20th day of January, 2011.

My Commission Expires: MY COMMISSION EXPIRES NOVEMBER 30, 2013 NOTARY ID #409352.

NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
>
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
>
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Farmers Rural Electric Cooperative Corporation does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: William T. Prather

Print Name: William T. Prather

Title: President/CEO, Farmers Rural Electric Cooperative Corp.

Date: January 18, 2011

STATE OF KENTUCKY

COUNTY OF Barren

SUBSCRIBED AND SWORN to before me by William T. Warren on this the 18th day of January, 2011.

My Commission Expires: 7-30-2011.

Linda Sue Forsee
NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF FLEMING-MASON ENERGY COOPERATIVE, INC.

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Fleming-Mason Energy Cooperative, Inc., does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Christopher S. Perry

Print Name: Christopher S. Perry

Title: Chief Executive Officer

Date: January 17, 2011

STATE OF KENTUCKY

COUNTY OF FLEMING

SUBSCRIBED AND SWORN to before me by Christopher S. Perry, CEO of Fleming-Mason Energy Cooperative, Inc., on this the 17th day of January, 2011.

My Commission Expires: October 26, 2013.

Tonia M. Lytle
NOTARY PUBLIC

TONIA M. LYTLE NOTARY MY COMMISSION EXPIRES 10/26/2013 PUBLIC STATE AT LARGE, KY.

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**

VERIFICATION AND ACKNOWLEDGEMENT OF
(~~COOPERATIVE NAME~~)
GRAYSON RURAL ELECTRIC

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, {~~Cooperative Name~~} Grayson Rural Electric does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Carol Hall Fraley

Print Name: Carol Hall Fraley

Title: President & CEO

Date: 1-21-11

STATE OF KENTUCKY

COUNTY OF Carter

SUBSCRIBED AND SWORN to before me by Carol Hall Haley on this the 21 day of January, 2011.

My Commission Expires: 10-7-12.

Bonita Bearhart
NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF INTER-COUNTY ENERGY COOPERATIVE

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
>
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
>
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Inter-County Energy Cooperative does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: James L. Jacobus

Print Name: James L. Jacobus

Title: President/CEO

Date: January 18, 2011

STATE OF KENTUCKY
COUNTY OF BOYLE

SUBSCRIBED AND SWORN to before me by James L. Jacobus on this the 18th day of January, 2011.

Cynthia Luttrell
NOTARY PUBLIC

My Commission Expires: 9/15/2013

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**

VERIFICATION AND ACKNOWLEDGEMENT OF (JACKSON ENERGY COOPERATIVE)

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
>
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
>
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Jackson Energy Cooperative does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Donald R. Schaefer

Print Name: Donald R. Schaefer P.E.

Title: President and CEO

Date: January 19, 2011

STATE OF KENTUCKY

COUNTY OF Jackson

SUBSCRIBED AND SWORN to before me by Donald R. Schaefer on this the 19th day of January, 2011.

My Commission Expires: 01-19-14.

Lisa Baker #411515

NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF LICKING VALLEY RURAL ELECTRIC COOPERATIVE CORPORATION

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Licking Valley Rural Electric Cooperative Corporation does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Kerry K. Howard

Print Name: Kerry K. Howard

Title: General Manager/CEO

Date: January 21, 2011

STATE OF KENTUCKY

COUNTY OF Morgan

SUBSCRIBED AND SWORN to before me by Kerry K. Howard on this the 21st day of Janurary, 2011.

My Commission Expires: 6-30-2012.

Kandra H. Bell
NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

> TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Nolin Rural Electric Cooperative Corporation does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Michael L. Miller

Print Name: Michael L. Miller

Title: President & CEO

Date: January 20, 2011

STATE OF KENTUCKY

COUNTY OF Hardin SUBSCRIBED AND SWORN to before me by Michael L. Miller on this the 20th day of January, 2011.

My Commission Expires: August 27, 2012.

Allison L. Coffey
NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF OWEN ELECTRIC COOPERATIVE, INC.

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Owen Electric Cooperative does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: ______________________

Print Name: Mark A. Stallons

Title: President & CEO

Date: January 21, 2011

STATE OF KENTUCKY

COUNTY OF (State-at-Large)

SUBSCRIBED AND SWORN to before me by Mark A Stallons on this the 21st day of January, 2011.

My Commission Expires: July 7, 2014.

Shawna Coldiron

NOTARY PUBLIC

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

VERIFICATION AND ACKNOWLEDGEMENT OF SALT RIVER ELECTRIC COOPERATIVE CORPORATION

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Salt River Electric does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: ______________________

Print Name: Larry Hicks

Title: Presdent and CEO

Date: January 21, 2011

STATE OF KENTUCKY

COUNTY OF Nelson

SUBSCRIBED AND SWORN to before me by Larry Hicks on this the 21st day of January, 2011.

My Commission Expires: December 16, 2014

Kathy Brown

NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF SHELBY ENERGY COOPERATIVE, INC.

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

> TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Shelby Energy Cooperative, Inc. does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Debra J. Martin

Print Name: Debra J. Martin

Title: President + CEO

Date: 1/20/11

STATE OF KENTUCKY

COUNTY OF Shelby

SUBSCRIBED AND SWORN to before me by Debbie Martin on this the 20 day of January, 2011.

My Commission Expires: March 28, 2014.

Mary Gay Tennill
NOTARY PUBLIC
Certificate ID 157770

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**

VERIFICATION AND ACKNOWLEDGEMENT OF SOUTH KENTUCKY RECC

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, South Kentucky RECC does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Allen Anderson

Print Name: Allen Anderson

Title: President and CEO

Date: 1-20-2011

STATE OF KENTUCKY

COUNTY OF Pulaski

SUBSCRIBED AND SWORN to before me by Allen Anderson on this the 20th day of January, 2011.

My Commission Expires: June 23, 2014.

Amy Acton
NOTARY PUBLIC

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**

VERIFICATION AND ACKNOWLEDGEMENT OF TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

WHEREAS, on January 14, 2011, the Public Service Commission ("Commission") entered an Order approving the provisions of the Settlement Agreement submitted in this case; and,

WHEREAS, Article I, paragraph 6 of that Settlement Agreement states:

> The Parties hereto recognize and agree that the 2010 load forecast, which was developed and filed subsequent to the completion of discovery in the instant action, represents a significant change to EKPC's projected load, and which also has a significant effect on EKPC's finances. The Parties therefore agree to the establishment of an "over-earning mechanism" which will hereafter be implemented as follows:
>
> a. EKPC will provide its calendar year 2011 audited financial statements to the Commission and Parties no later than March 31, 2012.
>
> b. EKPC agrees to file a base rate case as soon as practical, but no less than one year in the event EKPC's TIER exceeds 1.50, after 2011 financial results are known in order for the Commission to determine that rates are appropriate. This base rate case will also allow the Parties an opportunity, through discovery, to review EKPC's expenditures. If the results of the base rate case produce an increase or decrease to rates, such increases or decreases will be allocated proportionally to all eligible rate schedules so as to produce an equal percentage increase or decrease in the total rates of all eligible rate schedules.
>
> c. If EKPC earns greater than a 1.50 Times Interest Earned Ratio ("TIER") based on its calendar year 2011 audited financial statements, EKPC shall refund the amount in excess of the 1.50 TIER in a proportional manner according to the allocation established in "Exhibit 1," attached hereto, by way of a Surcredit Application to be filed with the Commission; and,

WHEREAS, concerning this provision of the Settlement Agreement, the Commission noted in its January 14, 2011 Order at page 21:

> Second, the Settlement established an over-earning mechanism under which EKPC would file a surcredit application to refund any excess earnings if its

TIER exceeds 1.50 for calendar year 2011. As EKPC's 16 member distribution cooperatives were not parties to this proceeding and were not signatories to the Settlement, the individual distribution cooperatives are not bound by any of the terms contained in the Settlement. To ensure that any excess earnings achieved by EKPC which would trigger the over-earning mechanism established by the Settlement would be refunded to retail ratepayers, the Commission will require EKPC to obtain written verification from each of its 16 member distribution cooperatives, acknowledging and affirming their agreement that, should EKPC file a surcredit application pursuant to the over-earning provision of the Settlement, the distribution cooperatives would file concurrent application to refund such excess earnings to their respective ratepayers; and,

WHEREAS, Ordering paragraph 5 of the Commission's January 14, 2011 Order requires EKPC to file fully executed verification and acknowledgement statements from each of its 16 member distribution cooperatives affirming the intent of the over-earning mechanism within 10 days of January 14, 2011.

NOW, THEREFORE, in compliance with the Commission's Order, Taylor Co. RECC does hereby verify, acknowledge, and affirm that in the event EKPC files a surcredit application pursuant to the terms of Article I, paragraph 6 of the Settlement Agreement filed in Case No. 2010-00167 and approved by the Commission on January 14, 2011, it will concurrently file an application to the Commission requesting to refund such excess earnings to its ratepayers.

By: Barry L. Myers

Print Name: BARRY L. MYERS

Title: MANAGER

Date: 1/20/11

STATE OF KENTUCKY

COUNTY OF Taylor

SUBSCRIBED AND SWORN to before me by Barry L. Myers on this the 20th day of January, 2011.

My Commission Expires: 5/6/2013.

NOTARY PUBLIC

FROM THE MINUTE BOOK OF PROCEEDINGS
OF THE BOARD OF DIRECTORS OF
EAST KENTUCKY POWER COOPERATIVE, INC.

At a special meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. held via teleconference call on Monday, November 29, 2010, at 9:00 a.m., EDT, the following business was transacted:

Approval to Accept Rate Case Settlement-PSC Case No. 2010-00167

After review and discussion of the applicable information and questions from Board members, a motion to approve amending the settlement with a change to clause #9 as read was made by Mike Adams, seconded by A. L. Rosenberger, and passed by the Board. The motion was passed to approve the following:

Whereas, At the April 13, 2010 meeting of the East Kentucky Power Cooperative, Inc. ("EKPC") Board of Directors ("Board"), management recommended and the Board approved the filing of a rate application ("Application") with the Public Service Commission ("Commission") with an annual increase not to exceed $50 million or 5.33 percent, to be effective for service rendered on or after July 1, 2010, which would support an actual implementation date, subject to refund, of January 1, 2011, after the Commission's statutory suspension period. Management further recommended and the Board authorized EKPC to seek RUS and CFC approval for this application;

Whereas, EKPC filed the Application on May 27, 2010, seeking actual implementation of the proposed rates for service rendered on or after January 1, 2011;

Whereas, EKPC prepared pass-through applications and notices for all Member Systems; the pass-through increases were to be effective on the same date as EKPC's wholesale increase;

Whereas, The Commission granted intervention to the Office of the Attorney General ("AG") and Gallatin Steel Company ("Gallatin");

Whereas, On November 24, EKPC, the AG, and Gallatin held a settlement meeting at the Lexington Office of Frost Brown Todd LLC;

Whereas, The parties reached a settlement consisting of the following terms: 1) Agreed to an annual revenue increase of $43 million in a "black box" settlement; 2) Agreed to develop rates using billing quantities derived from EKPC's 2010 load forecast; 3) Agreed to a January 1, 2011 effective date for rate implementation, or the date of Commission Order approving the settlement, whichever is later; 4) Agreed to a reduction in the allocation of Gallatin of $500,000 to address the subsidy issue raised by Gallatin and allocate said subsidy proportionally to all other rate classes that are eligible for an increase or to Rates B, C, G, and Steam Service, depending upon decision by the AG; 5) Agreed to the establishment of an "over-earnings mechanism", which would require EKPC to refund amounts in excess of a 1.50 TIER based on 2011 audited financial results. As part of this mechanism, EKPC agreed to file a base rate case as soon as possible in 2012 for the purpose of review of EKPC rates and expenditures. 6) Acknowledge the filing of either a base rate case or surcharge case prior to that required by the earnings sharing mechanism for the purpose of recovering the amortization of the regulatory asset resulting from the Smith 1 cancellation; 7) Agreed to review the level of interest expense relating to Smith 1 included in this proceeding and consider said level in the request for the recovery of the Smith 1 regulatory asset amortization so as to prevent a double recovery of Smith 1 interest expense by EKPC; 8) Agreed to affirm that EKPC has implemented or is in the process of implementing the recommendations outlined in the management audit report; 9) Agreed to increase the ten (10) minute interruptible credit for Gallatin to $6.22 and fix it for a period of three (3) years; and

Whereas, EKPC Management and the Operations, Services and Support Committee have recommended the approval of the above settlement as stated; now, therefore, be it

Resolved, That the Board hereby: (1) grants approval of the proposed rate case settlement as set forth above; (2) allows EKPC management the discretion to vary the final terms of the settlement agreement as it deems appropriate for the benefit of EKPC and/or consistent with the suggestions and directives of the Kentucky PSC at the Informal Conference between PSC staff and the parties to the case which is to be held subsequent to this Board of Directors meeting, as long as such variance does not materially change the terms of the settlement as set forth above; and, (3) authorizes and directs EKPC to seek RUS and CFC approval for this settlement.

The foregoing is a true and exact copy of a resolution passed at a meeting called pursuant to proper notice at which a quorum was present and which now appears in the Minute Book of Proceedings of the Board of Directors of the Cooperative, and said resolution has not been rescinded or modified.

Witness my hand and seal this 29th day of November 2010.

A. L. Rosenberger

A. L. Rosenberger, Secretary

Corporate Seal

FitchRatings

FITCH UPGRADES EAST KENTUCKY COOP'S REVENUE BONDS TO 'BBB+'; OUTLOOK STABLE

Fitch Ratings-New York-25 October 2013: Fitch Ratings has upgraded to 'BBB+' from 'BBB' the rating on the following East Kentucky Power Cooperative (EKPC) revenue bonds:

--$12.7 million Mason County, KY pollution control revenue bonds series 1984B;
--$6.0 million Pulaski County, KY solid waste disposal revenue bonds series 1993B.

Fitch has also upgraded to 'BBB+' from 'BBB' the rating on EKPC's implied senior unsecured obligations. The rating takes into account $293.5 million of unsecured debt at Dec. 31, 2012, but is assigned to implied obligations, since none of the outstanding unsecured debt is publicly held.

The Rating Outlook is Stable.

SECURITY

The senior secured obligations are secured by a mortgage interest in substantially all of EKPC's tangible and certain of its intangible assets.

KEY RATING DRIVERS

GENERATION AND TRANSMISSION COOPERATIVE: East Kentucky Power Cooperative (EKPC), a generation and transmission cooperative (G&T),supplies wholesale power to its 16 member-owner distribution cooperatives who serve predominantly rural territories in 87 counties in central and eastern Kentucky. The cooperative's generation fleet is geographically diverse; however, the majority of power comes from coal-fired units.

IMPROVING FINANCIAL PROFILE: The rating upgrade reflects EKPC's markedly improved financial profile and the execution of its long-term strategic plan. Fitch-calculated financial metrics for 2012 result in adjusted debt service coverage (DSC) of 1.25x and equity to capitalization of 11.6%. Total debt to funds available for debt service (FADS) of 10.8x is weak, but Fitch expects EKPC's high leverage to moderate as equity increases pursuant to the cooperative's strategic plan.

SUFFICIENT POWER SUPPLY RESOURCES: EKPC's current portfolio of power supply resources should be generally sufficient to meet anticipated demand through at least 2020; obviating the need for major new construction and additional major borrowings. The environmental compliance risks related to the coal-dominated portfolio are lessened by the presence of emissions control equipment at EKPC's most significant units.

REASONABLE MEMBER FUNDAMENTALS: EKPC supplies wholesale power to its distribution members pursuant to long-term, take-or-pay contracts, extending through Jan. 1, 2051, requiring members to purchase nearly all of their power requirements from EKPC to meet distribution system needs. This contractual relationship, together with the diversity and adequate financial performance of the member distribution cooperatives, supports the rating.

SUBJECT TO RATE REGULATION: EKPC's electric rates and those of its members are regulated by the Kentucky Public Service Commission (PSC). While the PSC has been supportive of the cooperative, state rate jurisdiction creates a greater level of uncertainty than self-regulated systems.

RATING SENSITIVITIES

CONTINUATION OF STRATEGIC PLAN: The current rating reflects Fitch's expectation that EKPC will continue to achieve financial objectives incorporated in the strategic plan and that distribution members will maintain financial ratios at satisfactory levels.

RESTRICTIVE RATE REGULATION: Future regulatory decisions that prevent the cooperative from adequately recovering costs would likely result in downward pressure on the rating or Outlook.

CREDIT PROFILE

IMPLEMENTING STRATEGIC PLAN

In 2009, the PSC ordered a comprehensive management audit of EKPC and publicly questioned the cooperative's commitment to "reversing its previous weakening financial condition." The management audit was to specifically examine the involvement of EKPC's Board of Directors in the strategic planning, decision-making and management of EKPC, with particular concern for EKPC's financial integrity.

EKPC's current long-range strategic planning initiatives are largely borne of the management audit, which noted that the cooperative did not engage in a regular, structured, and consistent strategic planning process. The EKPC board pledged its commitment to the PSC in May 2010, to actively engage in the development of a strategic plan. It began initiating the process with the help of an outside consultant in September 2010 with the strategic plan coming to fruition in early 2011. The plan is designed to achieve an equity ratio of 15% by 2015 and maintain a DSC ratio of around 1.20x.

MAXIMIZING GENERATING EFFICIENCY

EKPC boasts a geographically diverse generating fleet, but coal accounts for over 75% of electric production. Plants have historically performed well from a cost and availability standpoint when compared to national averages. EKPC's current forecast predicts that the existing portfolio of assets and related capacity, supplemented by modest amounts of purchased power, will be sufficient to cover peak demand requirements for the forseeable future.

EKPC filed its integrated resource plan (IRP) with the PSC in April 2012, which identified a potential need for up to 300 MW of energy to replace power plants that may be shut down as a result of federal regulations taking effect in 2015. The IRP places greater emphasis upon demand-side management and energy efficiency programs. EKPC subsequently issued a request for proposals (RFP) and received a number of responses. The capacity was planned to replace 200 MW of capacity from the Dale station as the unit approaches the end of its useful life prior to 2016, and to possibly replace 100 MW of capacity from the Cooper unit 1. Given its current power supply options, EKPC has said that it does not feel pressure to make a decision on new resources at this time.

ENVIRONMENTAL COMPLIANCE ACHIEVED

EKPC's preparedness for the pending regulations stems, in part, from a consent decree executed with the Department of Justice in 2007. EKPC management believes that the cooperative is now well positioned to meet the increasingly stringent emissions requirements proposed by the Environmental Protection Agency (EPA). An investment of $1.75 billion in emissions-control and clean-coal technologies has been made thus far. Emissions from the cooperative's largest generating station, Spurlock, have already been reduced significantly.

PJM Interconnection

EKPC previously filed a request seeking PSC's approval to integrate its system into the PJM Interconnection. The analysis indicates membership in PJM Interconnection, LLC (PJM) will provide a significant benefit to EKPC, enabling more efficient and economical operation, while providing affordable access to an established power market. On Dec. 20, 2012, the PSC approved, with certain conditions, the cooperative's request to transfer functional control of certain transmission facilities to the PJM. Integration into PJM became effective June 1, 2013.

STABLE ELECTRIC RATES

The EKPC board is required to review its wholesale rate at least annually, and to seek revisions as necessary to ensure covenant compliance, subject to the approval of the PSC. Given the anticipated time frame for PSC approval and implementation of rate increases (approximately seven months), the cooperative seeks to anticipate the need for rate relief well in advance of any projected revenue shortfall to maintain minimum annual TIER and DSC metrics.

Wholesale rates averaged $68.41/MWh for 2012, largely unchanged from the previous year, but remain higher than wholesale rates charged by other utilities to their members. Wholesale costs are projected at $69.70/MWH in 2013, consisting of a: i) base rate ($61.08), ii) fuel charge (credit $0.79) and iii) environmental surcharge ($9.41). For 2014, wholesale rates should moderate slightly and then are expected to grow moderately by the end of the decade. The utility is permitted to pass fuel and purchased power costs on to its members through the fuel adjustment clause approved by the PSC.

G&T FINANCIALS TRENDING HIGHER

Fiscal 2012 financials continued the cooperative's improving financial trend. Helped by rate increases granted by the PSC in recent years, net margins were a solid $52.8 million, with DSC equaling 1.25x. Leverage continued its downward trend, consistent with management's strategic plan. EKPC does not anticipate major capital expenditure or incremental debt issuances in the near term.

While equity to capitalization is historically low compared to other Fitch rated G&T co-ops, the ratio continues to improve towards EKPC's goal of equity to assets of 15% by 2015. Fiscal 2012 saw Fitch's calculation of EKPC's equity ratio grow to 11.6% from 10.4% in 2011. Fitch expects that the cooperative's low capitalization will be addressed as total debt levels decline pursuant to the strategic plan.

Fitch notes EKPC's improved liquidity, bolstered by a combination of higher earnings and healthier working capital. Day's cash on hand doubled, reaching 97 days in 2012, up from 47 days in 2010. Cash and cash equivalents totaled $157.2 million at year end 2012, compared with $129.7 million in 2011. This excludes restricted deposits with RUS.

EKPC has a $500 million unsecured credit facility that extends to October 2018 to be used for general operating expenses and capital construction projects. Borrowings as of Sept. 30, 2013 totaled $275 million. EKPC is contemplating a $200 million private placement before year end 2013 to help pay down outstanding borrowings under this facility. Future plans anticipate drawdowns from the credit facility of at least $50 million a year, with long-term cleanup financings occurring possibly every two years.

2013 INTERIM RESULTS

Net margins for the nine months ended Sept. 30, 2013 were $55.7 million, significantly ahead of budget, reflecting better sales and more favorable pricing for off-system sales into the PJM. For calendar year 2013, net margins are estimated at $58 million-$60 million, resulting in an estimated TIER of 1.51x, DSC of 1.30x and equity to assets ratio of 12.5%. No cash return of capital to the members is anticipated, due to the need to bolster the G&T's equity level. As of June 30, 2013, cash and cash equivalents amounted to $139.4 million, and deposits with RUS (cushion of credit) totaled $100.8 million.

DIVERSIFIED CUSTOMER BASE

EKPC's member distribution cooperatives provide retail electric service to 522,523 energy meters throughout territories that are reasonably diverse. Member territories are confined to central and eastern Kentucky. However, they include mountainous coal mining areas (Cumberland Valley Electric), rolling farmlands (Farmers Rural Electric Cooperative Corporation), and the more suburban areas surrounding the state's largest cities.

Energy sales among the members are reasonably well balanced and exhibit only modest concentration with respect to EKPC's largest member, Owen Electric Cooperative, Inc. Remaining energy sales are well spread over the other 15 members. In aggregate, 66% of total member revenues were derived from residential customers in 2012, with the remainder equally divided between small commercial and industrial. EKPC's members expect customer energy growth to average 1.3% annually over the next several years.

The consolidated financial profile of the EKPC membership has been satisfactory. Operating revenue and patronage capital for 2012 totaled $1.10 billion and net margins equaled $63.85 million (including G&T capital credits of $53.1 million). The members reported consolidated TIER of 2.70x and 1.28x (excluding G&T capital credits). Equity to capitalization ratio totaled 43.3% and a current ratio was 1.34x. Performance trailed 2011 results of a consolidated TIER of 3.01x (1.61x excluding G&T capital credits) and equity to capitalization of 41.5%. Several member systems are in the process of requesting rate adjustments from the PSC.

Contact:

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Additional information is available at 'www.fitchratings.com'.

The rating action was informed by information from Fitch's Revenue-Supported Rating Criteria and U.S. Public Power Rating Criteria

Applicable Criteria and Related Research:
--'U.S. Public Power Peer Study -- June 2013' (June 13, 2013);
--'U.S. Public Power Peer Study Addendum -- June 2013' (June 13, 2013);
--'U.S. Public Power Rating Criteria' (Dec. 18, 2012).

Applicable Criteria and Related Research:
U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696027
U.S. Public Power Peer Study Addendum -- June 2013
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=710641
U.S. Public Power Peer Study -- June 2013

BARCLAYS

EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy Cooperative

Cooperative Credit Ratings

April 22, 2014

Credit Ratings for Selected Electric Cooperatives

Cooperative	FitchRatings	Standard & Poor's	Moody's	Rating Type
Arkansas Electric Cooperative	A+ (S)	AA(S)	A1 (S)	Senior secured
Associated Electric Corp	AA (S)	AA (S)	A1 (P)	Senior secured
Basin Electric Cooperative	A+ (S)	A (S)	A1 (S)	Senior secured
Baldwin Electric Membership Cooperative	NR	A (S)	NR	Issuer credit rating
Big Rivers Electric Corp	BB (N)	BB- (N)	NR	Senior secured (M), Issuer credit rating (F)
Brazos Electric Cooperative	A (S)	A (S)	NR	Senior secured
Brunswick Electric Membership Corp	NR	A (S)	NR	Senior secured
Buckeye Power	A (N)	A- (S)	A2 (S)	Senior secured
Central Electric Power	NR	AA- (S)	NR	Issuer credit rating
Central Iowa Power Cooperative	A (S)	A (S)	NR	Senior Secured
Chugach Electric Association	A (S)	A- (S)	NR	Senior unsecured
Corn Belt Power Cooperative	A- (S)	A (S)	NR	Senior secured
CoServe Electric Cooperative	AA- (S)	NR	NR	Senior secured
Dairyland Power Cooperative	NR	A (S)	A2 (S)	Issuer credit rating (S&P), Implied secured (M)
Diverse Power Inc.	NR	A (S)	NR	Issuer credit rating
East Kentucky Power Cooperative	BBB+ (S)	BBB (P)	NR	Issuer credit rating
Georgia Transmission Corp	AA- (S)	AA- (S)	A1 (S)	Senior secured (F and S&P), Senior secured (M)
Golden Spread Electric Cooperative	A (S)	A (S)	A2 (S)	Implied senior secured issuer (M), Senior secured (F)
Great River Energy	A- (S)	A- (S)	Baa1 (S)	Senior secured
Guadalupe Valley Electric Cooperative	AA- (S)	A+ (P)	NR	Senior secured
Hoosier Energy	NR	A (S)	A3 (P)	Senior secured
Minnkota Electric Cooperative	NR	A- (S)	Baa1 (S)	Senior unsecured issuer (S&P), Implied secured (M)
North Carolina Electric Membership	A- (S)	A- (S)	NR	Senior secured
Oglethorpe Power Corp	A (S)	A (S)	Baa1 (S)	Senior secured
Old Dominion Electric Cooperative	A (S)	A (S)	A2 (S)	Senior secured / FMBs
Pedernales Electric Cooperative	AA- (S)	NR	NR	Senior secured
Peninsula Generation Cooperative	NR	A- (P)	NR	Senior secured
PowerSouth Energy Cooperative	A- (S)	A- (S)	A3 (S)	Senior secured
Rayburn Country Electric Cooperative	NR	A- (S)	NR	Issuer credit rating
San Miguel Electric Cooperative	A- (S)	A- (S)	NR	Issuer credit rating
Seminole Electric Cooperative	NR	A- (S)	A3 (S)	Senior secured
South Mississippi Electric Power Association	A- (S)	A- (S)	A3 (S)	Senior secured
Southern Illinois Power Cooperative	BBB (S)	BBB (S)	BBB (S)	Senior secured; Senior secured and unsecured (F)
Southern Montana Electric G&T Cooperative	NR	CC(DW)	NR	Issuer credit rating
South Texas Electric Cooperative	A- (S)	A- (S)	NR	Senior secured
Square Butte Electric Cooperative	NR	A- (S)	Baa1 (S)	FMBs
Sulphur Springs Valley Electric Cooperative	A- (S)	A- (S)	NR	Senior secured
Tri-State G&T	A (S)	A (S)	A3 (S)	Senior secured
Vermont Electric Cooperative	BBB+ (S)	A (S)	NR	Senior unsecured
Wabash Valley Power Association	NR	A- (S)	NR	Issuer credit rating
Western Farmers Electric Cooperative	A- (S)	A- (S)	NR	Senior secured (F), Issuer (S&P)

Note: As of April 21, 2014.

Electric Cooperatives Ratings Distribution

Color Key

Distribution Cooperative

Implied Secured

STANDARD & POOR'S		MOODY'S		Fitch Ratings	
AA	Associated Electric Corp Arkansas Electric Cooperative			AA	Associated Electric Corp
AA-	Central Electric Power Georgia Transmission Corp			AA-	CoServe Electric Cooperative Georgia Transmission Corp Guadalupe Valley Electric Cooperative Pedernales Electric Cooperative
A+	Pedernales Electric Cooperative Guadalupe Valley Electric Cooperative (P)	A1	Arkansas Electric Cooperative Associated Electric Corp (P) Basin Electric Cooperative Georgia Transmission Corp	A+	Arkansas Electric Cooperative Basin Electric Cooperative
A	Baldwin Electric Membership Cooperative Basin Electric Cooperative Brazos Electric Cooperative Brunswick Electric Membership Corp Central Iowa Power Cooperative Corn Belt Power Cooperative Dairyland Power Cooperative Diverse Power Inc. Golden Spread Electric Cooperative Hoosier Energy Oglethorpe Power Corp Old Dominion Electric Cooperative Tri-State G&T Vermont Electric Cooperative	A2	Buckeye Power Dairyland Power Cooperative Golden Spread Electric Cooperative Old Dominion Electric Cooperative	A	Brazos Electric Cooperative Buckeye Power (N) Central Iowa Power Cooperative Chugach Electric Association Golden Spread Electric Cooperative Oglethorpe Power Corp (N) Old Dominion Electric Cooperative Tri-State G&T
A-	Buckeye Power Chugach Electric Association Great River Energy Minnkota Electric Cooperative North Carolina Electric Membership Peninsula Generation Cooperative (P) PowerSouth Energy Cooperative Rayburn Country Electric Cooperative San Miguel Electric Cooperative Seminole Electric Cooperative South Mississippi Electric Power Association South Texas Electric Cooperative Square Butte Electric Cooperative Sulphur Springs Valley Electric Cooperative Wabash Valley Power Association Western Farmers Electric Cooperative	A3	Hoosier Energy (P) PowerSouth Energy Cooperative Seminole Electric Cooperative South Mississippi Electric Power Association Tri-State G&T	A-	Corn Belt Power Cooperative Great River Energy North Carolina Electric Membership PowerSouth Energy Cooperative South Mississippi Electric Power Association South Texas Electric Cooperative Western Farmers Electric Cooperative Sulphur Springs Valley Electric Cooperative
BBB+		Baa1	Great River Energy Minnkota Power Cooperative Oglethorpe Power Corp Square Butte Electric Cooperative	BBB+	Vermont Electric Cooperative East Kentucky Power Cooperative
BBB	East Kentucky Power Cooperative (P) Southern Illinois Power Cooperative	Baa2		BBB	Southern Illinois Power Cooperative
BB+		Ba1		BB+	
BB		Ba2		BB	Big Rivers Electric Corp (N)
BB-	Big Rivers Electric Corp (N)	Ba3		BB-	
CC	Southern Montana Elec G&T Cooperative				

Note: As of April 21, 2014.

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COMMONWEALTH OF KENTUCKY
MASON CIRCUIT COURT
CIVIL ACTION NO. 12-CI-00270

GRAYSON RURAL ELECTRIC
COOPERATIVE CORPORATION,

PLAINTIFF

VS.

EAST KENTUCKY POWER COOPERATIVE, INC.,
CHARLESTON BOTTOMS RURAL ELECTRIC, ET AL,

DEFENDANTS

WITNESS: HAROLD DUPUY

The deposition of HAROLD DUPUY was taken before Jolinda S. Todd, Registered Professional Reporter, CCR(KY) and Notary Public in and for the State of Kentucky at Large, at the offices of Grayson Rural Electric Cooperative Corporation, 109 Bagby Park, Grayson, Kentucky on Wednesday, January 9, 2013, commencing at the approximate hour of 2:30 p.m. Said deposition was taken pursuant to Notice, for all purposes as permitted by the Kentucky Rules of Civil Procedure.

A Not right offhand, but just because Carol Ann is the manager, it doesn't make her always right.

Q Okay. But as we sit here today, you can't think of a -- something that would in your mind be a major issue that you voted against a recommendation?

A No, not right offhand. I mean, there's a lot of things that goes on in board meetings that you just don't -- you might question, and then when it's done, you forget it.

Q Are you generally familiar with the financial condition of Grayson?

A Yes.

Q Approximately how much -- how many assets does it have?

A How many assets?

Q Yes.

A You mean in dollars?

Q What's the worth of its assets?

A We're in about $40 million.

Q And do you know approximately how many liabilities it has, what the worth of those liabilities would be?

A No.

Q Do you know what its equity ratio is?

A Yes.

Q What would that be?

A Well, no, I don't -- the equity, I don't recall it right offhand.

Q Okay. And do you know the dollar amount of the proposed rate increase you're seeking from the Public Service Commission?

A Yes.

Q How much is that?

A 1.2.

Q 1.2 million?

A Uh-huh (affirmative).

Q And do you know what the -- do you know what the percentage of rate increase that would be?

A Well, it goes in two different things. There's two different rates there. One is -- I'm thinking it's 50-some percent, and one is like a point-something or other. I don't know exactly what it is. It's like .5 or...

Q So it would be in the nature of a 50 percent rate increase, and then the other one would be in the nature of less than one percent?

The witness, **KENNETH ARRINGTON**, after first being duly sworn, was examined and testified as follows:

EXAMINATION

By Mr. Samford:

Q Mr. Arrington, my name is David Samford and I'm an attorney for East Kentucky Power Cooperative, Inc. and Charleston Bottoms Rural Electric Cooperative Corporation, and with me is Mr. Roger Cowden, whom you may know. Probably do know.

A You might need to speak up a little. I can't hardly hear you.

Q Okay. My name is David Samford and I'm an attorney on behalf of East Kentucky Power Cooperative, Inc. and Charleston Bottoms Rural Electric Cooperative Corporation, and with me is today is Mr. Roger Cowden, who is an in-house counsel for East Kentucky Power.

So have you ever -- first of all, if you don't mind, go ahead and state your name for the record.

A Kenneth D. Arrington.

Q And what's your address?

Q Okay. So you don't recall whether or not this board had given him an instruction one way or the other?

A No.

MR. SAMFORD: I think that's all the questions I've got.

MR. SCOTT: Mr. Arrington --

MR. SAMFORD: Actually, I thought of one more. I apologize.

Q We were talking about the financial condition of Grayson a little bit earlier and the desire to lessen the financial impact upon its members. Are you generally familiar with Grayson's financial condition right now?

A Yes.

Q Do you know what its equity ratio is?

A No, I don't.

Q Do you know the amount of the rate increase that you're seeking?

A Yes.

Q And how much is that?

A Eight (8) percent.

Q And do you know what that corresponds to in dollars?

A No, I -- no, not at this point.

Q Do you know what Grayson's annual -- well, do you know what its annual revenue is for any recent year?

A I see it on the balance sheet, but there's a lot of figure stuff to it.

Q Do you know approximately how much money it earns each year?

A Not -- no.

Q Do you know approximately how many assets it has?

A Approximately, yeah.

Q And what's that number?

A Fifty-eight (58), 56 million.

Q Okay. Do you know approximately how many liabilities it currently has?

A No. No, not today.

Q All right. Do you believe that the board has undertaken every reasonable step to determine if it is providing the lowest cost rates to its members?

A Yes.

Q What has it considered in the course of that consideration?

A In what way?

COMMONWEALTH OF KENTUCKY
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CHARLESTON BOTTOMS RURAL ELECTRIC, ET AL,

DEFENDANTS

WITNESS: EDDIE MARTIN

The deposition of EDDIE MARTIN was taken before Jolinda S. Todd, Registered Professional Reporter, CCR(KY) and Notary Public in and for the State of Kentucky at Large, at the offices of Grayson Rural Electric Cooperative Corporation, 109 Bagby Park, Grayson, Kentucky on Friday, February 21, 2014, commencing at the approximate hour of 1:07 p.m. Said deposition was taken pursuant to Notice, for all purposes as permitted by the Kentucky Rules of Civil Procedure.

Q Okay. Let me just ask kind of generally, how much rate relief was Grayson awarded last July, approximately?

A I don't remember the specific number.

Q Do you remember -- well, what's Grayson's -- what's the value of its assets currently?

A I don't remember the specific number.

Q Do you know its margins for 2013?

A I don't remember.

Q Do you know the amount of its long-term debt?

A I don't -- not right offhand, no.

Q So you don't know its debt to equity ratio?

A I think our TIER last month was -- it was about two or somewhere in there.

Q Okay. TIERs is a little bit different than debt to equity. Do you know what the debt to equity would have been?

A No.

Q Do you know what its annual revenues are?

A Not specifically. Not right at the time, no.

MR. SAMFORD: That's all the questions I have.

Anything else, Brandon? Mr. Tucker?

MR. TUCKER: No. I think we're fine.

MR. SAMFORD: All right. Thank you, sir.

THE WITNESS: All right.

* * * * * * *

THEREUPON, the taking of the deposition of **EDDIE MARTIN** was concluded.

* * * * * * *

COMMONWEALTH OF KENTUCKY
MASON CIRCUIT COURT
CIVIL ACTION NO. 12-CI-00270

GRAYSON RURAL ELECTRIC
COOPERATIVE CORPORATION,

PLAINTIFF

VS.

EAST KENTUCKY POWER COOPERATIVE, INC.,
CHARLESTON BOTTOMS RURAL ELECTRIC, ET AL,

DEFENDANTS

WITNESS: WILLIAM T. RICE

The deposition of WILLIAM T. RICE was taken before Jolinda S. Todd, Registered Professional Reporter, CCR(KY) and Notary Public in and for the State of Kentucky at Large, at the offices of Grayson Rural Electric Cooperative Corporation, 109 Bagby Park, Grayson, Kentucky on Friday, February 21, 2014, commencing at the approximate hour of 2:00 p.m. Said deposition was taken pursuant to Notice, for all purposes as permitted by the Kentucky Rules of Civil Procedure.

discovery requests that East Kentucky should be made to pay one million dollars in punitive damages. Are you aware of any conduct by anyone at East Kentucky that needs to be punished?

A Not specifically, I don't.

Q Let me ask you just some general kind of questions. Do you know how much rate relief Grayson was awarded last year by the Public Service Commission?

A No.

Q Do you know the value of Grayson's assets?

A I read it several times, but I don't remember what it is. It's been sometime.

Q Do you know what its margin was in 2013?

A No, not right off.

Q Okay. Or its --

A I have had it all in records at home, in our bulletins and so forth to go out, I think.

Q Let me ask you, do you recall there being a board discussion about whether or not to file the lawsuit against East Kentucky?

A I'm pretty sure there was.

COMMONWEALTH OF KENTUCKY
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CHARLESTON BOTTOMS RURAL ELECTRIC, ET AL,

DEFENDANTS

WITNESS: DON COMBS

The Deposition of DON COMBS was taken before Jolinda S. Todd, Registered Professional Reporter, CCR(KY) and Notary Public in and for the State of Kentucky at Large, at the offices of Grayson Rural Electric Cooperative Corporation, 109 Bagby Park, Grayson, Kentucky on Thursday, January 17, 2013, commencing at the approximate hour of 9:10 a.m. Said deposition was taken pursuant to Notice, for all purposes as permitted by the Kentucky Rules of Civil Procedure.

EKPC as to the trust indenture?
A Yes.
Q And were your questions answered to your satisfaction?
A Yes.
Q Based upon your knowledge and experience with working with financial conditions of rural electric cooperatives, did you have any concerns about EKPC entering into the trust indenture?
A Not on its face, no.
Q As we sit here today, do you have any concerns about the trust indenture?
A Not to my knowledge, no.
Q I think you said earlier Grayson has between 11- and 12,000 members; is that correct?
A Yes.
Q Do you know what its annual revenues are, approximately?
A Generally, yes.
Q What is that?
A At this point?
Q Yes, sir.
A It's a significant deficit at

this particular time.

Q So are you telling me that Grayson's expenses are larger than its revenues?

A Yes.

Q And can you quantify those two figures for me, please?

A Not off the top of my head, no.

Q Do you know approximately what Grayson's equity ratio is currently?

A It's approximately 26 or 27 percent, I believe.

Q And do you know what its current tier ratios are?

A Approximately, yes.

Q And what would that be?

A Be roughly zero.

Q Do you know, does it have a debt service coverage ratio?

A Yes.

Q And do you know what that is?

A I'm not familiar with that right at this point.

Q Has Grayson been in default on any of its loan agreements with RUS or CFC in the last five years?

COMMONWEALTH OF KENTUCKY
MASON CIRCUIT COURT
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EAST KENTUCKY POWER COOPERATIVE, INC.,
CHARLESTON BOTTOMS RURAL ELECTRIC, ET AL,

DEFENDANTS

WITNESS: CAROL FRALEY

The Deposition of CAROL FRALEY was taken before Jolinda S. Todd, Registered Professional Reporter, CCR(KY) and Notary Public in and for the State of Kentucky at Large, at the offices of Grayson Rural Electric Cooperative Corporation, 109 Bagby Park, Grayson, Kentucky on Tuesday, January 8, 2013, commencing at the approximate hour of 1:00 p.m. Said deposition was taken pursuant to Notice, for all purposes as permitted by the Kentucky Rules of Civil Procedure.

cut into somebody else's margin or does it cause them to have a deficit? You know, I don't want to cause anybody else to lose money, but it shouldn't all be one-sided either.

Q And then we talked a little bit about the 20 percent equity.

A Uh-huh (affirmative).

Q What's Grayson's equity right now?

A Probably around 8 percent.

Q Eight (8) percent?

A Uh-huh (affirmative). So it looks like to me equity at home could be a little better.

Q What's the national average, do you know, for distribution co-ops?

A Oh, gosh, no, I don't. I really don't.

Q Do you happen to know what it is for distribution co-ops in Kentucky?

A No, I don't. I'm sure CFC would have that.

Q Okay. And then the next item here, you've got Amendment 3. "Grayson has signed a contract with Magnum Drilling under what we

Grayson RECC

Co-op News

A Touchstone Energy Cooperative

Straight Talk from the CEO

Carol Hall Fraley
President/CEO

Dear Members:

The board of directors believes that it is their duty to protect our members from unwarranted or unnecessary rate increases. That is why we have taken issue with a number of decisions made by the management and board of East Kentucky Power Cooperative. We want our members to know about those issues and to understand our concern and opposition. The letter below has been sent to all presidents and CEOs of the 16 member cooperatives that own East Kentucky Power Cooperative.

Sincerely,
Carol Hall Fraley
President and CEO, Grayson RECC

November 16, 2012

Dear Fellow Manager:

I am writing to all my fellow managers because I do not believe that many of you understand the actions taken by Grayson RECC concerning Charleston Bottoms. First, let me say that our actions were based solely on our commitment and fiduciary responsibilities to our members. We truly believe that Charleston Bottoms was formed by the member owners of East Kentucky Power. As such, Charleston Bottoms has a real and significant value to EKPC and the member owners. As yet, we have seen no documentation that would cause us to believe otherwise. We simply want to know if the procedure was handled properly, as outlined in the bylaws or was it subject to interpretation by those who were not around when Charleston Bottoms was formed and could not have firsthand knowledge of the intent and purpose.

Our attorney, W. Jeffrey Scott, began to ask questions of EKPC concerning Charleston Bottoms prior to June's annual meeting. We found EKPC unwilling to satisfy our inquiries. Mr. Scott went to EKPC in October with a Forbearance Agreement and no one was available to agree to or reject that agreement. Therefore, based on other actions by EKPC, he felt he must take the next step and file legal action against EKPC, in order to at least stop any further action on their part.

We were contacted by Mark David Goss and a meeting was set with Mr. Scott and myself. We discussed the Charleston Bottoms issue, along with several other concerns. We agreed that if EKPC would meet with us and the other cooperatives, we would hold our legal action in abeyance until after the meeting. Mr. Goss contacted us that evening and said that the EKPC Executive Committee had informed him that they would not meet with us and they were only interested in having us withdraw the legal action we had filed.

At our October board meeting, it was decided to pursue legal action until satisfactory answers were given by EKPC. Subsequently, I called Mr. Campbell to see if there was some way we could work this out in a manner that would be fair and reasonable to all of us. A phone conference was held with Tony Campbell, David Smart, Mark David Goss, Don Combs, Jeffrey Scott, and me on November 2. This was the third time we have offered a chance to compromise.

In addition to the issue of Charleston Bottoms, we discussed the following:

Rate Redesign – A request by member systems for rate relief via restructuring of the wholesale rate structure. After a year of meetings, this has been postponed to 2015, after we have had some "experience with PJM." We maintain that if we don't have some idea of the impact of PJM, perhaps we shouldn't be joining. This also adds 2 1/2 years of high demand charges to those cooperatives who are mainly residential.

20 % Equity – The strategy of increasing equity even further, without regard for rate-payers. We have never had a reasonable explanation of what 20% equity will do for the member systems. We were told that EKPC's last financing package was well-accepted and highly subscribed at the current equity rate. How much is sufficient and how much is too much on the backs of our members? We were also told this came from the board. We maintain that the idea of 20% equity was put before the board by management without sound and reasonable explanation. EKPC's margins certainly reflect a sound financial position, which Grayson wholeheartedly supports. But should there not be acceptable and achievable levels that do not burden the member systems?

Amendment 3 – The request by Grayson and other cooperatives to invoke Amendment 3 of the Wholesale Power Contract. Grayson has signed a contract with Magnum Drilling under what we believed was acceptable in accordance with Amendment 3. This contract would save Grayson's members between $800,000 and $1,000,000,000 per year or half of our proposed rate increase. With all EKPC's talk of DSM and green power, we should think they would take a lead role in a project like this. We may be first for a project of this size, but I am sure we won't be the last. We believe that cooperation and guidance from EKPC in this matter is vital to the success of this project and any others that become available to the member systems. Again, we were told that Mr. Campbell would not rethink his interpretation of Amendment 3, although there are no other projects in line at this time.

Pass through of the cost of the cancelled Smith Plant - When are we going to see the Smith Plant issue finally resolved? At our budget meetings, we were told even if margins from PJM were enough to cover the cost of the Smith and still have a positive margin, EKPC still plans to pass the costs nf Smith on to the members. Is this really necessary?

We believe that these four issues could have a tremendous effect on the member systems. If the Charleston Bottoms issue and the Magnum Drilling issue were resolved, Grayson RECC could certainly rethink our rate increase and would probably be in a position to forego a rate increase for a longer period of time. We believe that we would be remiss in our duty to our members not to explore every opportunity to keep our rates as low as possible.

We would like to make it clear that Grayson has never depended on EKPC for TIER or for any part of our financials. Hnwever, to be frank, it seems that the "tail is wagging the dog" and no consideration is being given to the member systems when these decisions are made. We are tired of the IOU mindset of EKPC and would like to encourage all of you to insist that we return to cooperative values, where the good of all is considered our highest goal. Quite frankly, we have been astonished at the reluctance of EKPC to avoid any semblance of compromise.

Our desire is for a thoughtful and productive dialogue that would lead to financial strength for all of us, and processes that would lead to savings for our members and add strength to our cooperative culture. If any of you would like to talk about this, please feel free to give me a call. My board and I would welcome your comments and suggestions and would give them our utmost consideration.

Steven L. Beshear
Governor

Leonard K. Peters
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

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda Breathitt
Commissioner

February 18, 2013

Mr. Tony Campbell,
President and Chief Executive Officer
East Kentucky Power Cooperative
4775 Lexington Road
Post Office Box 707
Winchester, KY 40392-0707

Dear Mr. Campbell:

The Staff at the Kentucky Public Service Commission have completed our review of East Kentucky Power Cooperative's ("EKPC") fourth management audit progress report filed June 29, 2012. As a result of our review, the last 9 recommendations that remained ONGOING at the time this progress report was filed have been placed in COMPLETED status.

The Liberty Consulting Group's June 16, 2010 Final Action Plans set forth 12 management related recommendations and 17 governance related recommendations to be addressed by EKPC. As a result of EKPC's successful completion of the 9 recommendations addressed in the June 29, 2012 report, all 29 recommendations have now been placed in COMPLETED status and no further progress reports relative to the management audit are required to be submitted by EKPC.

On behalf of the Commission and Staff, I commend EKPC for the time and effort it has devoted implementing the audit recommendations. We recognize that it has been a challenge for EKPC and its member cooperatives to address the audit recommendations. We believe that the changes undertaken by EKPC in response to the management audit's recommendations have resulted in core changes within EKPC that will allow it to appropriately address the future. We also believe that EKPC's management, its member cooperatives and their customers are well positioned for long-term success.

Sincerely,

David L. Armstrong
Chairman

AG/kar
cc: Ann Wood

On January 21, 2011 at 9:23 a.m. Grayson Rural Electric Cooperative Corporation held a regular board meeting at its office in Grayson, Kentucky called by the Chairman, for the transaction of such business as outlined in the letter of call. Chairman Trent called the meeting to order pursuant to the Waiver of Notice signed by the Directors and all were present. Others present included: Carol Hall Fraley, President & CEO; W. Jeffrey Scott, Legal Counsel; and Bonita Gearhart, Executive Assistant.

INVOCATION	Director Crum gave the invocation.
APPROVAL OF MINUTES	Motion was made by Director Rice seconded by Director Martin and unanimously agreed to approve the minutes from the December Board Meeting for informational purposes only.
NEW EMPLOYEES'	President Fraley introduced new employees' Bradley Cherry and Caitlin Hutchinson to the Board of Directors. Bradley is the Purchasing Agent and Caitlin is a Cashier.
PROMOTION	Andrea McCleese has been promoted to the position of Technical Services Supervisor.
JOB CHANGES	Nancy Madden has moved to the position of Technical Services Clerk. She will assist both the Engineering and Operations Departments.
	Becca Richardson is now a Member Services Representative.
OFFICE & MEMBER SERVICES REPORT	Don Combs, Manager of Finance and Accounting presented the Financial & Statistical Report for November 2010. Mr. Combs reported on the following:
FINANCIAL & STATISTICAL REPORT FOR NOVEMBER	Kilowatt hour sales for the month of November (11/20-12/20) were 4.81% over budget. Purchases for the time period of 11/1-11/30 were 2.41% under budget. Line loss for the last twelve months was 4.46%. Year to date margins were $378,841 compared to the budgeted amount of $637,410.
NOVEMBER T.I.E.R.	The T.I.E.R. for November was 2.24.
219 WORK ORDERS	Seventy three (73) 219 work orders were closed during the month of November in the amount of $201,183.65.
CRC ANALYSIS	CRC answered one hundred six telephone calls during December and ninety-eight credit card and e-check payments were taken
RUS 5% LOANS	Mr. Combs said the refinancing of RUS 5% loans with CoBank was completed on January 14, 2011. There are a few outstanding issues that he plans to take up with Legal Counsel Scott.
OPTIONAL RATES	We plan to implement the new Optional Rates Tariff in April or May of 2011. We are working on some of the advertising. When a consumer inquires about the tariffs, they will complete a profile of when and how their electric is used. Once a member decides to choose one of the Optional Rates, they will be on contract for one year.

EKPC REPORT CON'T.	Director Arrington said that a big concern is the equity increase proposed by EKPC that will bring equity levels to 15% over the next five years. We are not convinced that local rates can withstand the equity increase and we feel more information is needed. David Cruz was introduced as Senior Vice President of Power Supply.
DONATIONS	President Fraley presented to the Board for their consideration the following donation requests: Salvation Army-Carter County Service Unit $100 Extension Office-John Car April 2nd $150 Motion was made by Director Rice seconded by Director Dupuy and unanimously agreed to approve the donations as presented.
MEETING ATTENDANCE	Mike Martin and Mark Hutchinson recently attended the TVPPA Foreman's Academy training in Lexington, Kentucky. This training is a three week commitment and will be conducted a week at a time.
VOTING DELEGATES TO CFC'S ANNUAL MEETING	Director Rice will serve as the voting delegate to CFC's National Meeting and Chairman Trent will serve as the alternate delegate.
BOARD POLICIES TO BE REVIEWED	The following board policies were presented for consideration: 103 Qualifications for Directorship 105 Board of Directors –President & CEO Interrelationship 112 Services of Consultants (Attorneys, CPAs, Engineers, Etc.) 113 Conflict of Interest 124 Ethics and Conflict of Interest Policy 508 Safety Practices 514 Insurance Benefits Following discussion, motion was made by Director Whitt, seconded by Director Martin and unanimously agreed to reaffirm the board policies as presented.
BOARD MEETING DATE	The next board meeting will be held on Friday, February 25, 2011.
ADDITIONAL BUSINESS	Chairman Trent called for an Executive session to discuss the compensation of the President & CEO.
ADJOURN	Chairman Trent adjourned the meeting at 12:15 P.M.

Roger L. Trent, Chairman

Billy E. (Eddie) Martin, Secretary/Treasurer

W. Jeffrey Scott, Legal Counsel

On April 20, 2012 at 9:00 a.m. Grayson Rural Electric Cooperative Corporation held a regular board meeting at its office in Grayson, Kentucky called by the Chairman, for the transaction of such business as outlined in the letter of call. Chairman Trent called the meeting to order pursuant to the Waiver of Notice signed by the Directors and all were present. Others present included: Carol Hall Fraley, President & CEO; W. Jeffrey Scott, Legal Counsel; and Priscilla Sparks, Executive Assistant.

INVOCATION	Director Rice gave the invocation.
APPROVAL OF MINUTES	Motion was made by Director Dupuy, seconded by Director Rice and unanimously agreed to approve the minutes from the March 2012 Board Meeting.
MANAGER OF TECHNICAL SERVICES	Andrea McCleese, Technical Services Supervisor, reported on the following: We still do not have the TS2 installed at Mazie and Newfoundland. We have had difficulty with Foothills and Mt. Rural Telephone getting our broadband installed in the respective substations as well as getting East Kentucky to install their protective interface equipment. We have resolved the issue with both phone companies and believe we have everything straight with EKPC. The person that handled our communication requests as East Kentucky has retired and we have to train the replacement with specific details of what we need. We are getting documentation pulled together for our upcoming Public Service Commission site visit in May. They will be looking over many areas of most all departments. It is a routine visit but still quiet involved. We have received our electronic recloser that will be installed along Rt. 1 at Pactolus. It is to help us better isolate the commercial loads along I-64 from the exposure to the lines to Oldtown and the taps. Cooper Power Industries came and provided training on its operation. The challenge is getting the unit properly programmed with time-current curves that work with the existing OCR's and the substation. It has potential to help on issues we have on other parts of the system. Reclassification of accounts continues. Director Dupuy asked what the actual numbers of services and Ms. McCleese stated it was 18,562.
OFFICE & MEMBER SERVICES REPORT	Don Combs, Manager of Finance and Accounting and Bradley Cherry, Purchasing Agent presented a slide presentation on T.I.E.R. & Budget. Mr. Combs gave the Financial & Statistical Report for February 2012. He reported on the following RUS accounting standards: Functioning accounting Operations Expenses – outside expenses, supervision, inspections, testing, installing, etc. Maintenance Expenses – outside expenses, lines, transformers, etc. Customer Records – records, meter reading, bill collections Customer & Service – informational and instructional Sales Expenses – promotional Administrative & General – general in nature These are the basic functions of Form 7. Mr. Combs also discussed T.I.E.R., what it means, the difference in T.I.E.R. and O.T.I.E.R., and how it affects Grayson R.E.C.C.

OFFICE & MEMBER SERVICES REPORT (CONTINUED)

We anticipate margins of .03. Our T.I.E.R. includes EKPC capital credits. RUS looks at operating tier (O.T.I.E.R.) and the average tier (best two out of the last 3 years, which includes current year). The 2011 T.I.E.R. dropped significantly which makes us technically in default of our mortgage this coming year.

Don and Bradley used difference financial situations to give us an understanding of the impact of our financial decisions such as increasing or decreasing right of way costs, extending the work plan, and cost of employee benefits. When looking at a rate increase, we will examine several different approaches, including increasing the customer charge. Owen Electric plans to spread their customer charge increase over the next three years. Legal Counsel Scott expressed frustration with EKPC for continuing to increase their equity and financial position to the detriment of the member owner cooperatives. He suggests the coops need to go to the PSC as a group, and request help in getting EKPC to lower rates to the Cooperatives. Director Dupuy pointed out that the PSC wanted EKPC to raise their equity level and they have. Legal Counsel Scott suggested that we bring before the EKPC Board a request that when EKPC reaches a certain financial position, the excess be refunded to the member owner Cooperatives. He stated the Cooperatives should go through the legal process and lay out their request in language that would stand up before PSC when needed.

Director Arrington felt that EKPC should not be involved in the Magnum Drilling Project. President Fraley explained that EKPC must be involved, either in buying excess power or measuring how much power we avoid buying from EKPC by using the Magnum power. She felt that we must be above board with Magnum by informing them of all options available to them.

President Fraley asked the Board if they would like to invite Don Mosier and Mike McNally to come up for a meeting. EKPC has a rate increase scheduled for May 2013. President Fraley asked Legal Counsel Scott if we should set a deadline for resolving this problem. Director Arrington stated he has brought this issue up before the Governance Committee. Don Combs reminded the Board that we have retained Alan Zumstein and Jim Adkins to assist us in analyzing this problem. They are also working for several other Cooperatives on the same situation.

President Fraley presented a letter from RUS addressing the issue that GRECC did not meet operating T.I.E.R. this year and asked for approval for her prepared response to RUS. President Fraley pointed out that this letter affirmed the Board's initial intention to file for a rate increase next year. Director Rice made a motion, seconded by Director Martin and unanimously agreed to approve the letter as presented, a copy of which shall be made a part of these minutes.

Grayson Rural Electric Cooperative Corporation

109 Bagby Park • Grayson, KY 41143-1292
Telephone 606-474-5136 • 1-800-562-3532 • Fax 606-474-5862
November 16, 2012

I am writing to all my fellow Managers because I do not believe that many of you understand the actions taken by Grayson RECC concerning Charleston Bottoms. First, let me say that our actions were based solely on our commitment and fiduciary responsibilities to our members. We truly believe that Charleston Bottoms was formed by the Member Owners of East Kentucky Power. As such, Charleston Bottoms has a real and significant value to EKPC and the Member Owners. As yet, we have seen no documentation that would cause us to believe otherwise. We simply want to know if the procedure was handled properly, as outlined in the Bylaws or was it subject to interpretation by those who were not around when Charleston Bottoms was formed and could not have firsthand knowledge of the intent and purpose.

Our attorney, W. Jeffrey Scott, began to ask questions of EKPC concerning Charleston Bottoms prior to June's annual meeting. We found EKPC unwilling to satisfy our inquiries. Mr. Scott went to EKPC in October with a Forbearance Agreement and no one was available to agree to or reject that Agreement. Therefore, based on other actions by EKPC, he felt he must take the next step and file legal action against EKPC, in order to at least stop any further action on their part.

We were contacted by Mark David Goss and a meeting was set with Mr. Scott and myself. We discussed the Charleston Bottoms issue, along with several other concerns. We agreed that if EKPC would meet with us and the other Cooperatives, we would hold our legal action in abeyance until after the meeting. Mr. Goss contacted us that evening and said that the EKPC Executive Committee had informed him that they would not meet with us and they were only interested in having us withdraw the legal action we had filed.

At our October Board Meeting, it was decided to pursue legal action until satisfactory answers were given by EKPC. Subsequently, I called Mr. Campbell to see if there was some way we could work this out in a manner that would be fair and reasonable to all of us. A phone conference was held with Tony, David Smart, Mark David Goss, Don Combs, Jeffrey Scott and me on November 2. This was the third time we have offered a chance to compromise.

In addition to the issue of Charleston Bottoms, we discussed the following:

Rate Redesign – A request by member systems for rate relief via restructuring of the wholesale rate structure. After a year of meetings, this has been postponed to 2015, after we have had some "experience with PJM." We maintain that if we don't have some idea of the impact of PJM, perhaps we shouldn't be joining. This also adds 2 ½ years of high demand charges to those Cooperatives who are mainly residential.

20 % Equity – The strategy of increasing equity even further, without regard for rate-payers. We have never had a reasonable explanation of what 20% equity will do for the Member Systems. We were told that EKPC's last financing package was well accepted and highly subscribed at the current equity rate. How much is sufficient and how much is too much on the backs of our members? We were also told this came from the Board. We maintain that the idea of 20% equity was put before the Board by Management without sound and reasonable explanation. EKPC's margins certainly reflect a sound financial position, which Grayson wholeheartedly supports. But should there not be acceptable and achievable levels that do not burden the Member Systems?

Amendment 3 – The request by Grayson and other Cooperatives to invoke Amendment 3 of the Wholesale Power Contract. Grayson has signed a contract with Magnum Drilling under what we believed was acceptable in accordance with Amendment 3. This contract would save Grayson's members between $800,000 and $1,000,000,000 per year or half of our proposed rate increase. With all EKPC's talk of DSM and green power, we should think they would take a lead role in a project like this. We may be first for a project of this size, but I am sure we won't be the last. We believe that cooperation and guidance from EKPC in this matter is vital to the success of this project and any others that become available to the Member Systems. Again, we were told that Mr. Campbell would not rethink his interpretation of Amendment 3, although there are no other projects in line at this time.

Pass through of the cost of the cancelled Smith Plant - When are we going to see the Smith Plant issue finally resolved? At our budget meetings, we were told even if margins from PJM were enough to cover the cost of the Smith and still have a positive margin, EKPC still plans to pass the costs of Smith on to the members. Is this really necessary?

We believe that these four issues could have a tremendous effect on the Member Systems. If the Charleston Bottoms issue and the Magnum Drilling issue were resolved, Grayson RECC could certainly rethink our rate increase and would probably be in a position to forego a rate increase for a longer period of time. We believe that we would be remiss in our duty to our members not to explore every opportunity to keep our rates as low as possible.

We would like to make it clear that Grayson has never depended on EKPC for TIER or for any part of our financials. However, to be frank, it seems that the "tail is wagging the dog" and no consideration is being given to the Member Systems when these decisions are made. We are tired of the IOU mindset of EKPC and would like to encourage all of you to insist that we return to Cooperative values, where the good of all is considered our highest goal. Quite frankly, we have been astonished at the reluctance of EKPC to avoid any semblance of compromise.

Our desire is for a thoughtful and productive dialogue that would lead to financial strength for all of us, and processes that would lead to savings for our members and add strength to our Cooperative culture. If any of you would like to talk about this, please feel free to give me a call. My Board and I would welcome your comments and suggestions and would give them our utmost consideration.

Sincerely,

Carol Hall Fraley
President and CEO

GRAYSON RURAL ELECTRIC
COOPERATIVE CORPORATION, INC.

CHF/pfs

Cc EKPC Member Systems

On April 22, 2013 at 9:04 a.m. Grayson Rural Electric Cooperative Corporation held a regular board meeting at its office in Grayson, Kentucky called by the Chairman, for the transaction of such business as outlined in the letter of call. Chairman Trent called the meeting to order pursuant to the Waiver of Notice signed by the Directors and all were present. Others present included: Carol Hall Fraley, President and CEO; W. Jeffrey Scott, Legal Counsel; and Priscilla Sparks, Executive Assistant.

INVOCATION	Brendon Bush, son of Kim and Brian Bush and winner of the Prichard Elementary School 4-H speech contest (age 9 division), gave the invocation.
APPROVAL OF MINUTES	Motion was made by Director Martin, seconded by Director Dupuy and unanimously agreed to approve the minutes from the March 2013 Board Meeting.
MANAGER OF TECHNICAL SERVICES	Andrea McCleese, Assistant Technical Services Supervisor, reported on the following:
	Our coordination study is progressing as planned. We have gotten an unofficial approval for new settings on the feeders at the substations that should prevent the high-side fuses from blowing before a feeder locks out. Once EKPC engineering committee approve we can sent to the service centers for programming, followed by our per-feeder studies.
	To date, we have had 68 people download our smartphone application. We have also had 11 people sign up for outage texting.
	SEDC completed training for the MDM Server (Meter Data Management). The MDM system will continue to be useful in monitoring our meters in addition to the vital importance of the pre-paid metering services we will be offering once the PSC approves the new tariff. We have found a couple of meters stealing, and utilizing the new server prompted us to investigate reduced usage on Blaine Elementary School.
OFFICE & MEMBER SERVICES REPORT	Don Combs, Manager of Finance and Accounting and Bradley Cherry, Purchasing Agent, gave the Financial & Statistical Report for February 2013. The following was reported:
FINANCIAL & STATISTICAL REPORT FOR FEBRUARY 2013	Kilowatt hour sales for the month of February (02/20-03/20) were 8.32% over budget. Purchases for the time period of (2/1-28) were 2.86 % over budget. Line loss for the last twelve months was 4.31%. Year to date margins were a negative of $352,511 compared to the budgeted amount of a $101,555.
T.I.E.R.	Operating T.I.E.R for February 2013 was 0.98 negative.
	Mr. Combs discussed the report in detail. The rolling 12 month kWh report shows sales are improving. We had $116,000 in margins. Operating expense was $126,000. Year-To-Date margins increased.
	President Fraley read a letter from RUS regarding not meeting T.I.E.R and the letter we sent to them in response.
	The hearing on our rate case will be June 20th at the PSC.
FORM 990	The Form 990's were handed out to the Directors by Mr. Combs.

ROBERT BROWN

Employees donated over $5,900 by exercising an administrative guideline to assist Robert and Jamie Brown with medical expenses due to Jamie's cancer treatments.

MOU

Director Arrington asked about the MOU. Jeffrey, Carol, Carol, Don, and Bradley will meet next Wednesday, with Owen, Clark, Jackson and Salt River to go over the Memorandum.

PJM

Don Combs, Bradley Cherry, Carol Fraley, Jim Adkins and Alan Zumstein met with EKPC employees David Crews, Don Mosier and Chuck Dugan concerning the impact of PJM on Grayson. Mr. Adkins and Mr. Zumstein believe it will be beneficial for Grayson and the other member systems.

ADMINISTRATIVE ASST. PROFESSIONALS DAY AND SCHOLORSHIP RECIPIENTS

President Fraley told the Board will be having lunch with the scholarship recipients and observing Administrative Assistant's Day today.

LEGAL COUNSEL'S REPORT

Legal Counsel Scott reported on the following:

MOU

Our contract with Magnum Drilling expired in January 2013. Legal Counsel Scott prepared and mailed an extension to the contract to their lawyer. Carol Fraley talked to Tom Crisp and he said he had been out of town and would sign it and have his attorney, Morris Kennedy, return it to Jeffrey.

Concerning the mediation to be held on May 2, 2013, Judge Mains at Morehead told EKPC to bring members of their Board who are empowered to make decisions.

President Fraley went over handout focusing on what we feel would be a fair and significant settlement to this matter.

Two years in a row, EKPC has allocated Capital Credits and then reduced them after their audit, lowering our capital credit allocation. Director Arrington feels that if EKPC would work with us on MOU, Rates Restructuring, sale of Smith Assets and a sound Equity Policy, it would help us significantly. Legal Counsel Scott agreed. The general consensus of the Board was to focus on these points.

Legal Counsel Scott will do the opening and closing and answer legal questions and President Fraley will lead the negotiations.

A motion was made by Director Dupuy, seconded by Director Rice and unanimously agreed to allow President Fraley and Legal Counsel Scott to negotiate a reasonable settlement within these parameters. The Board would be available for a final authorization if necessary.

KAEC DIRECTOR'S REPORT

Director Whitt reported there was no meeting this month due to the Manager's Spring Meeting.

EKPC DIRECTOR'S REPORT

Director Arrington said that most of his report had been covered under related Board issues.