



EAST KENTUCKY POWER COOPERATIVE

June 30, 2011

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

Re: Case No. 2010-00449

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case, an original and ten copies of the Smith Unit 1 Asset Cost Mitigation Report (first report) of East Kentucky Power Cooperative, Inc. ("EKPC"). This report is being filed pursuant to the Commission's Order of February 28, 2011.

Should you have questions or need additional information, please contact me.

Very truly yours,

A handwritten signature in cursive script that reads "Ann F. Wood".

Ann F. Wood
Director, Regulatory Services

Enclosures

RECEIVED

JUN 30 2011

PUBLIC SERVICE
COMMISSION

East Kentucky Power Cooperative, Inc.
Smith Unit 1 Asset Cost Mitigation Report
June 30, 2011 (First Mitigation Report)

In accordance with the Commission's Order dated February 28, 2011 in Case No. 2010-00449, this report summarizes the status of East Kentucky Power Cooperative Inc.'s ("EKPC") mitigation efforts to reduce the balance of the regulatory asset through the sale of the Smith Unit 1 physical assets.

EKPC has negotiated final settlement of all Smith Unit 1 contracts except one. EKPC has been successful in reducing cancellation charges to an amount below the original estimates made for those charges. At this time, no additional charges are expected from the one contract remaining to be settled. Unwind costs associated with the other contracts are reflected in the cost to date for the Smith Unit 1 project. EKPC has also been successful in obtaining refunds for unused field service hours. As of May 31, 2011, the regulatory asset balance relating to Smith Unit 1 is \$157,095,084. Please note that, until final agreements are signed by both EKPC and suppliers involved in the contract unwinding, EKPC continues to accrue the appropriate estimates for contract unwinding costs.

EKPC is currently accumulating minor expenses associated with preserving the assets for potential sale. These expenses to date total \$9,418.

EKPC is working through an equipment broker to market the Smith assets and to identify and screen potential purchasers. Through its equipment broker, EKPC has contacted nearly 100,000 power generation professionals in over 150 countries with marketing information on the Smith Unit 1 assets. As of May 31, 2011, one hundred forty-three (143) inquiries regarding the assets have been received. Thirteen (13) of the inquirers have executed confidentiality agreements with EKPC, enabling EKPC to share technical information regarding the assets. Eleven (11) of the thirteen inquirers who have executed confidentiality agreements are currently considered active prospects. Two (2) of the active prospects have made visits to EKPC to inspect the assets. Three (3) active prospects have conducted meetings with the Original Equipment Manufacturers (OEMs) to further evaluate the technical suitability of the Smith Unit 1 assets for their individual projects.

EKPC is currently engaged in due diligence activities with one of the active prospects. This prospect has provided EKPC with an indicative offer letter to purchase the assets. EKPC has replied with a counteroffer which has neither been accepted nor rejected by the prospect. Discussions between EKPC and this prospect are on-going at this time.

EKPC is continuing to pursue the strategy of selling the Smith Unit 1 assets as a complete project. This strategy will continue as long as one or more active prospects are showing interest in purchasing all assets as one package. The options to sell individual components of the project and to dispose of the assets at scrap value are still available to EKPC and will be evaluated once efforts to sell the project in its entirety have been exhausted.