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March 31, 2016

HAND DELIVERED

Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2010-00449

Dear Executive Director:

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 (eighteenth report) of East Kentucky Power Cooperative, Inc. ("EKPC"). This report is being filed pursuant to the Commission's Order of February 28, 2011. Also, please find answers to five questions posed by Staff in a January 12, 2016 letter from Mr. Jeff Derouen to EKPC.

Should you require further clarification of any part of the report, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'P. Woods', is written over the typed name.

Patrick C. Woods
Director, Regulatory and Compliance Services

Enclosures

East Kentucky Power Cooperative, Inc.
Smith Unit 1 Asset Cost Mitigation Report
March 31, 2016 (Eighteenth Mitigation Report)

In accordance with the Commission's Order dated February 28, 2011 in Case No. 2010-00449, and further to Mr. Jeff Derouen's letter in the same case, dated July 1, 2015, the following is a report summarizing 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 as authorized by a Commission Order on March 5, 2013 in Case No. 2013-00005.

- As of March 30, 2016, the regulatory asset balance relating to Smith Unit 1 was \$148,751,266.55. This balance includes expenses associated with marketing the assets and preserving the assets for potential sale.
- As of March 30, 2016, three-hundred and sixty-two (362) inquiries regarding the Smith assets have been received. Eighty-one (81) of the inquirers have executed confidentiality agreements with EKPC, enabling EKPC to share technical information regarding the assets. Twenty-four (24) prospects have conducted site visits.

In EKPC's 16th Smith Unit 1 Asset Cost Mitigation Report to the Commission, dated March 31, 2015, EKPC responded to a February 11, 2015 letter from Mr. Jeff Derouen requesting EKPC specifically address seven additional questions, one of which asked EKPC to identify any assets (or their value) that can be used by EKPC at any of the other generating stations. In response, EKPC provided a list of component spare parts that can be used at its other generating stations. At that time, EKPC had not yet been able to determine the individual value of each of these parts, and promised to supplement this report with those values, when available. In its 17th Smith Unit 1 Asset Cost Mitigation Report, EKPC provided a list of parts with accompanying values for most of those parts. However, the individual values for a small subset of those parts had yet to be determined, and EKPC promised to supplement subsequent Mitigation Reports with those values. Below is a list of each of those parts whose value has subsequently been determined:

Two Tube Handcuffs - \$14
Sorbent Mill VS Drivers - \$70,532
Return Air Housings - \$21,984
Mill Base & Bearing Assy. - \$575,706
Headers, Loose Tubes Furnace Roof & BP Panels- \$178,829
FHBE SH Loose Tubes - \$109,061
FBHE RH Horizontal Tube Assys. - \$114,608
10pcs, FBHE SH Horizontal Assys. - \$103,250.

Also, as a result of Staff's review of EKPC's 17th Smith Unit 1 Asset Cost Mitigation Report submitted on September 30, 2015, and in a letter to EKPC on January 12, 2016 Staff issued a request to EKPC to respond to five questions and requested that EKPC address these questions in this, EKPC's 18th, report. Below are the questions with EKPC's answers:

- Q1 EKPC identifies a value of \$28,000,000 for the "Generator & Turbine and all components." Please identify the additional components to which EKPC refers.
- A1 The additional components to which EKPC referred in its description of "Generator & Turbine and all components" are parts of the generator and turbine such as foundations hardware, valves, piping, etc. By using the phrase "and all components", EKPC is generally referring to all of the pieces of equipment essential to the assembly of the generator and turbine.
- Q2 Explain how the value was determined for the items reflected in this Mitigation Report.
- A2 Current market pricing information for the items reflected in the referenced Mitigation Report of September 30, 2015 was solicited from the original equipment manufacturers (OEM's). The values provided were obtained as current market values in 2006 through 2009.
- Q3 With reference to the items that EKPC has identified that could be used at its other generating stations, identify the stations or units where these items could be used, and explain the circumstances that would necessitate these items actually being used at other units.
- A3 Spurlock Units 3 & 4 are the only units in the fleet where the Smith Unit 1 assets are practical to use, because they are "sister" units to Smith Unit 1 - the design, equipment, and components are essentially the same. The circumstances where EKPC has used and plans to continue to use Smith 1 assets for Spurlock Units 3 & 4, are replacement-in-kind for overhauls, normal equipment "end of life" replacement, replacement due to equipment failures, etc.
- Q4 Has EKPC determined the likelihood of using any of the Smith 1 assets at any of its other stations? In the explanation, include whether the use of any of the assets could improve the efficiency or resultant air quality of particular units.
- A4 Unless deliberately duplicated, an individual generating unit design is unique to the site, technology, vintage, available fuel market, and operations/maintenance philosophy of

the owner. The Smith Unit 1 assets are only used at Spurlock for Units 3 & 4, as replacement-in-kind. No efficiency gains or air quality improvements would be realized.

Q5 Has EKPC considered the cost-effectiveness of using any of the Smith 1 assets at any of its other stations? If so, has EKPC developed a specific plan or timetable regarding the use of any of the Smith 1 assets at any of its other stations?

A5 The design of Spurlock Units 3 & 4 provides a unique opportunity to use the Smith Unit 1 assets in an incremental fashion. It is not practical, nor in most cases feasible, to use the Smith Unit 1 assets at EKPC's other generating facilities.