Smart, David A.

From:	CBJ523@aol.com [CBJ523@aol.com]	**Sent:**	Thu 12/9/2010 4:13 PM
To:	Smart, David A.; Goss, Mark David		
Cc:	mstallons@owenelectric.com		
Subject:	Owen Electric Cooperative		
Attachments:			

Dear David/Mark:
In accordance with my phone conversation of this afternoon, the OEC Board passed a resolution today granting EKPC until February 25, 2011, to provide the appropriate information (i.e. as discussed Monday, December 6, 2010) needed to make an informed decision with regard to the exercise of its election pursuant to Amendment #3 of the Wholesale Power Contract. I assured the Board that I would contact you immediately after the meeting so that you could share this information with Mr. Campbell and the EKPC staff.

Thank you for your help.

Hon. James M. Crawford/mns
Crawford & Baxter, P.S.C.
P.O. Box 353
Carrollton KY 41008-0353
Phone: (502) 732-6688
Fax: (502) 732-8303

Wholesale Power Supply Agreement

Amendment # 3
Board Policy #305

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

Privileged and Confidential

Jackson Energy Position

- Would like to have lower cost energy
- Understands if they proceed there would be a projected ~$8 - $10 MM/yr. uplift for the 5 years. Uplift would be distributed to the remainder of their load and all other members loads.
- Understanding the Cooperative Principles, Jackson has agreed to temporarily set-aside their request. Jackson does not want to cost shift to other members.
- However, want amendment #3, and policies corrected to be fair and equitable for all members.

Owen Electric Position

- Monday, December 6th, EKPC met with Owen.
- Owen is doing analysis of 5 & 15% exercise of Amendment #3 and Policy #305.
- Owen has requested EKPC supply it with "all additional costs" passed from EKPC to Owen should they pursue this option.
- Owen has agreed to give EKPC until Friday, Feb. 25, 2011 to supply this data, prior to their board addressing the issue.
- Owen, like Jackson, wants EKPC to address the Amendment #3 issue as soon as possible, due to all members exposure.

At Issue

- It is EKPC staff's position that having the plural word "loads" along with load ("load or loads") means an individual load, or multiple specific loads, (i.e. that would require load following and specifically relates to economic development, Member distributed generation, and to allow Member pursuit of existing load currently being served by another utility).

- Jackson does not agree with EKPC's interpretation of "load" or "loads", which would require load following.

At Issue

- EKPC's intent is to source the lowest cost long-term power supply. Short term price opportunities should be available to meet specific member needs without harming other members or EKPC (ie: economic development, distributed generation, etc.). Therefore, the intent of Wholesale Power Contract Amendment #3 needs to be more fully described in an Amendment to the Amendment #3.

- The Amendment was written and supplied by RUS. RUS has now stated, "They will not get involved with our problem".

At Issue continued

- Board Policy #305 is flawed and potentially in conflict with the Amendment #3. EKPC counsel believes clarifying Amendment #3 is our only long-term solution.
- EKPC staff canvassed multiple G&T's with various types of partial requirements provisions. All agreed with this interpretation.
- Roy Palk, and Bob Marshall also confirmed the intent of Amendment #3.
- EKPC firmly believes the intent of Amendment #3 was for economic development purposes, distributed generation, attraction of existing loads from other utilities and should NOT be used by any EKPC Member to the significant financial detriment of another Member.

At Issue continued

- The Power Supply & Ownership Alternative Subcommittee has agreed to work with Staff in recommending specific changes of Amendment #3 to the Governance Committee and then to the Board.
- Once the Board is comfortable with the Amendment corrections, we will request all Members adopt the modified language.
- One critical element of this process is to protect all Member Systems, while still giving Members power supply options when consistent with the Cooperative Principles.
- EKPC will make Amendment #3 modifications a top priority.

Power Supply & Ownership Alternative Subcommittee

- **Members:**
  - Ted Hampton, Member
  - Debbie Martin, Member
  - E. A. Gilbert, Member
  - Jimmy Longmire, Member
  - Additional participants:

Tony Campbell	Don Mosier
Mike McNalley	Denver York
David Smart	Sherman Goodpaster
David Crews	ACES Power Marketing

Questions and Discussion

AMENDMENT NO. 3 TO WHOLESALE POWER CONTRACT BETWEEN EAST KENTUCKY POWER COOPERATIVE, INC. AND BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

This Agreement dated the 17th day of OCTOBER, 2003, amends the Wholesale Power Contract dated October 1, 1964 between East Kentucky Power Cooperative, Inc. (hereinafter "Seller") and Big Sandy Rural Electric Cooperative Corporation (hereinafter "Member") as follows:

I. Numerical Section 1 of the Wholesale Power Contract shall be amended and restated to read in its entirety as follows:

1. General - The Seller shall sell and deliver to the Member and the Member shall purchase and receive from the Seller all electric power and energy which shall be required to serve the Member's load, including all electric power and energy required for the operation of the Member's system. Notwithstanding the foregoing, the Member shall have the option, from time to time, with notice to the Seller, to receive electric power and energy, from persons other than the Seller, or from facilities owned or leased by the Member, provided that the aggregate amount of all members' elections (measured in megawatts in 15-minute intervals) so obtained under this paragraph shall not exceed five percent (5%) of the rolling average of Seller's coincident peak demand for the single calendar month with the highest peak demand occurring during each of the 3 twelve month periods immediately preceding any election by the Member from time to time, as provided herein and further provided that no Member shall receive more than fifteen percent (15%) of the rolling average of its coincident peak demand for the single calendar month with the highest average peak demand occurring during each of the 3 twelve

month periods immediately preceding any election by the Member from time to time, as provided herein.

For any election made or cancelled under this Section, the following provisions shall apply:

a. During any calendar year, the Member may make or cancel any such election or elections by giving at least 90 days' notice to the Seller with respect to any load or loads with an average coincident peak demand (calculated in the same manner as provided in the preceding paragraph) of 5.0 Megawatts or less, in the annual aggregate.

b. During any calendar year, the Member may make or cancel any such election or elections by giving at least 18 months or greater notice to the Seller with respect to any load or loads with an average coincident peak demand (calculated in the same manner as provided in the preceding paragraph) of 5.0 Megawatts or more, in the annual aggregate

Upon the effective date of the Member's cancellation of any such election under this Agreement, the load or loads shall be governed by the all requirements obligations of the Seller and the Member in this Section, and notice of same shall be provided to the Rural Utilities Service ("RUS") by the member. Such loads which are transferred to Seller's all-requirements obligations shall not thereafter be switched by Member to a different power supplier.

c. Should any such election by Member involve the acquisition of new service territory currently served by another power supplier or municipal utility, Member shall provide evidence to Seller and RUS in the new Load Purchase Agreement that the acquired territory must be served by the current power supplier as a condition of the acquisition of the new load.

Seller will provide transmission, substation, and ancillary services without discrimination or adverse distinction with regard to rates, terms of service or availability of such service as between power supplies under paragraphs above and Member will pay charges therefore to Seller. Seller also agrees to allow, at Member's sole cost and expense, such additional interconnection as may be reasonably required to provide such capacity and energy as contemplated in the above paragraphs.

Member will be solely responsible for all additional cost associated with the exercise of elections under the above paragraphs including but not limited to administrative, scheduling, transmission tariff and any penalties, charges and costs, imposed by the Midwest Independent System Operator ("MISO") or other authorities.

II. Section 10 of the Wholesale Power Contract shall be restated as Section 11 and new Section 10 and Section 11 shall read in their entirety as follows:

10. Retail Competition - Seller and its subsidiaries, shall not, during the term of this contract, without the consent of the Member, (i) sell or offer to sell electric power or energy at retail within the Member's assigned or expanded geographic area, if any, established by applicable laws or regulations or (ii) provide or offer to provide retail electric service to any person which is a customer of the Member.

11. Term – This Agreement shall become effective only upon approval in writing by the Administrator and shall remain in effect until January 1, 2041, and thereafter until terminated by either party's giving to the other not less than six months' written notice of its intention to terminate. Subject to the provisions of Section 1 hereof, service hereunder and the obligation of the Member to pay therefore shall commence upon completion of the facilities necessary to provide service.

Executed the day and year first above mentioned.

EAST KENTUCKY POWER
COOPERATIVE, INC.

BY: Delno Tolson

ITS: CHAIRMAN OF THE BOARD

Sam Penn
ATTEST, SECRETARY

Big Sandy Rural Electric
Cooperative Corporation

BY: John E. Shepherd

ITS: Chairman of the Board

Jax Harris Jr
ATTEST, SECRETARY

(H:Legal/misc/amend-3-wpc)

OUTLINE OF A3 & A3 LIMITATIONS

Privileged and Confidential

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

Amendment No. 3 (non-EKPC supply)

- Member may elect non-EKPC supply for up to 15% of its load, subject to aggregate cap for all Members of 5% of EKPC's load
- Non-EKPC supply must take transmission service under the EKPC OATT if the supply does not connect to the members distribution system.
- Amendment 3 elections are no longer part of the Wholesale ✓ Power Contract.
- 90 days' notice for non-EKPC supply to serve load with an average coincident peak demand ≤ 5 MW; 18 months notice for non-EKPC supply ≥ 5 MW
- Once a load is returned to EKPC system, may not be served by non-EKPC supply again

Amendment No. 3 (new service teritory)

- Non-EKPC supply for a new service territory only permitted if acquisition terms require the territory to continue to be served by non-EKPC supply
- EKPC supplies, and Member pays for, interconnection, transmission and ancillary services for non-EKPC supply
- Member solely responsible for all additional costs.

Limitations of Amendment No. 3

- Allows non-EKPC supply <u>only</u> for a specific load
  - Non-EKPC supply for a percentage of a Member's total load is not permitted
- Non-EKPC supply <u>must</u> follow load shape of specified load
  - 7 x 24 energy blocks not permitted
  - Load-shaped supply is not generally available in small kW amounts
- Use of non-EKPC supply for a newly acquired service territory is very limited
  - Permitted only if acquisition terms require that territory continue to be served by the existing supplier

Limitations of Amendment No. 3

- Each Member does not control whether it will be able to exercise a non-EKPC supply option when the Member has an opportunity
  - Allocation Committee under Policy 305 may have already allocated the full 5% of EKPC's total load to other Members by the time a Member has its first opportunity to exercise its non-EKPC supply option
- Does not expressly address responsibility for stranded costs or for load growth of non-EKPC supplied load
- Requires only 90-days notice for non-EKPC supply < 5 MW, and 18-months notice for non-EKPC supply > 5 MW
- Does not specify notice period for obtaining supply from EKPC for non-EKPC supplied load

A3 MORE DETAILS

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

Amendment 3 Need to Know

- Wholesale Power Contract
- Cost impact to members
  - Direct Assignment
  - Socialization
- DG & Renewable Projects
- Bundled vs Un-Bundled Service
- Transmission & Ancillary Services
- Commission Approvals

Wholesale Power Contract

- EKPC's fixed costs do not change as a result of removing load from the Wholesale Power Contract
- Removing billing determinates from a rate leads to collection of inadequate revenues to fund the revenue requirement
- Underfunding of the revenue requirement must be addressed (ie EKPC's financial integrity)

Direct Assignment Impact

- The direct assignment associated with a 1 MW reduction would be approximately $546,500
- The direct assignment associated with a 50 MW reduction of load would produce a direct assignment of $27.3 million

CEO Meeting

- Not agreement on the existence of stranded cost.
- Majority favored direct assignment of stranded costs
- Favored credits for any savings that result from Non-EKPC supply.

PROPOSED AMENDMENT 5

Privileged and Confidential

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

Proposed Amendment 5

- Adds flexibility in types of non-EKPC supply a Member can elect
- Gives each Member control over whether its 5% can be used by another Member
- Clarifies responsibility for stranded costs, so that non-EKPC supply obtained by one Member does not shift costs to other Members
- Provides credits for members that serve load with a non-EKPC supply.

Proposed Amendment 5

- Amendment No. 5 requires compliance with certain fundamental principles and policies and procedures amended by EKPC from time to time
- Fundamental principles include:
  - Electing Member responsible for all stranded costs and additional costs
  - Each Member controls use of its 5%
  - Non-EKPC supply must take OATT transmission service from EKPC and potentially
  - Minimum notice periods
  - Electing Member credits for energy benefits and new resource timing
- Appropriate way to implement these principles can change over time, depending on a number of factors, including:
  - EKPC rate structure
  - Whether EKPC joins an RTO, and changes in RTO requirements
  - Evolving NERC reliability standards and compliance requirements

Proposed Amendment 5

- Distributed Generation and Renewable Projects are not subject to stranded costs or credits
- Existing Amendment 3 projects are not subject to stranded costs or credits.

Proposed Amendment 5

- Expressly provides that the electing member will be responsible for any stranded costs, except in the case of "New Load"
- "New Load" is
  - Retail load ≥ 2,500 kW for one customer (can be at multiple meters), as to which the Member elects non-EKPC supply when the Member first starts serving load at the applicable meter(s)
  - New or re-started retail load at a facility previously served by the Member after at least 12 months of no service being provided by the Member
  - Newly acquired service territory, as to which the Member elects non-EKPC supply when the Member first starts serving the territory

Discussion & Questions

Jackson's comments on A3 discussed in PS&O Subcommittee 5-9-11

Amendment #3 Discussion
Jackson Energy Cooperative (JEC)

By: Don Schaefer P.E.
& Carol Wright

Background of Amendment #3

Amendment #3 was developed to allow South Kentucky RECC (SKRECC) to make a proposal to Monticello KY Municipal System to replace the power supply that was currently being provided by TVA. The Amendment was presented to the EKPC Board as an offering for all member cooperatives, not just SKRECC. It was stated that if all members signed the agreement, we would all have the same rights under Amendment #3. We understood that it would allow the cooperatives to buy power from other sources. Prior to this Amendment, we were not allowed to purchase any kwh under the limitations of the Wholesale Power Contract. Since then the Net Metering legislation allowed very minor purchases by the cooperatives in addition to Amendment #3.

Note: SKRECC did not pay any stranded costs, OATT charges or transmission charges.

Wellhead Energy, LLC

We utilized Amendment #3 to purchase power on a 24 X 7 basis from Wellhead Energy with the understanding that we would be allowed to do this because of Amendment #3. We presented the project to the Board, the EKPC Operations Committee and attained a Board Resolution from the EKPC Board acknowledging our use of Amendment #3 for the transaction. The EKPC Allocation Committee did not meet on this application by JEC.

So-Called Exceptions to Amendment #3

Later we found that other cooperatives had ignored Amendment #3 and the Wholesale Power Contract and now we understand that EKPC agrees that they are not Amendment #3 transactions but are outside of the agreement. Those projects include; Farmers Peak generation (2 units), Salt Rivers Hydro purchase and the Owen Solar project (which may be considered Amendment #3). There are no rules as to what is included under Amendment #3 and what is not. It appears that any project JEC has, will fall under Amendment #3 and all others do not have to follow those limitations.

JEC Attempts at Utilizing Amendment #3

JEC investigated the possibility of utilizing our 5% option under Amendment #3 and since there was no other cooperative choosing an election to utilize EKPC's 5%, Amendment #3 would allow us to acquire 15% of our supply from another source. We hired attorneys and consultants to interpret the Amendment, and we understand that the Amendment is very poorly written, however, all agreed that we could acquire 15% of our supply from another source. Nothing in the Amendment #3 would prevent the supply of a 24X7 product to serve our "load".

We proceeded to attain proposals to acquire a 24X7 product for 40 MW. We found that we could save as much as 20 million dollars the first year of the five to ten year purchase. During a meeting in

November, 2010, we agreed to discontinue pursuing the transaction to allow EKPC to work out the Amendment #3 complications and that JEC would be allowed to utilize the Amendment #3 15% option before anyone else did. We would be kept informed on the progress of these discussions.

The Discussion of Stranded Costs

EKPC argues that there are stranded costs that need to be addressed if a cooperative elects to utilize Amendment #3. I agree that stranded costs need to be addressed. Since the power purchase is to replace native existing load, the generation that a cooperative has paid for since the generation was constructed is now able to reduce the purchase of market power at high prices. That generation is very valuable for the remaining cooperatives. EKPC should reimburse the cooperative for the generation that has been freed up for the use by the other members. If the load is returned to the EKPC supply, the stranded cost credit would be discontinued.

There are no stranded transmission facilities. They are covered under the OATT as all of the other expenses that need to be paid to EKPC. Amendment #3 or 5 should not change charges that are already approved through the KPSC without their approval.

Discussion of the New Draft Amendment #5

The new write-up includes the phrases "policies and procedures established and maintained by the Seller", "as amended from time to time", and "in accordance with the Seller's policies and procedures". We are discussing multi-million dollar transactions on long term contracts. The rules must be established by contract and not changed continually. If there are rules and procedures, they need to be clearly established in the contract. A member cannot enter into a long term contract with uncertainty caused by changing the rules "from time to time".

Paragraph I.1.

a. This section includes the phrase "all additional costs incurred by the Seller as a result of such election." are the costs included in the OATT, so this additional wording will cause the member to pay different (higher) costs or additional costs that are not approved by the KPSC. EKPC must obtain KPSC approval for any charges to the member cooperatives.

b. The abandoned generation should be reimbursed to the cooperative for the term of the PPA. If the load returns to EKPC, the credit for the abandoned generation will cease.

c. This takes away a lot of the options under Amendment #3 without compensation for the restrictions.

d. This section refers to a member's entitlement in Amendment #3. The members were not allocated 5% each. They were allowed to use up to 15 % of EKPC's 5% maximum. No member owns a 5% share.

e. This paragraph is unnecessary. This is all covered in the OATT which is a filed tariff with the KPSC. This paragraph assumes that the EKPC transmissions system is the only transmission we would use.

Amendment #5, as written, limits us to only using the "Sellers" system. That is a restriction that is not in Amendment #3.

f. This paragraph is restricting the PPA to renewables, distributed generation, a specific load, or a fixed hourly supply schedule. As written in section (iii), the fixed hourly schedule will allow a 24 X7 product. The verbiage restricts us to only the Seller's ancillary (energy imbalance, and such other transmission and ancillary services) services. PPL can also provide these services and the transmission is provided per filed tariffs.

g. This section refers to a 2,500 kW restriction. Where was that in Amendment #3? Why are we restricted to 2,500 kW? It is impossible to find a supply on the open market for such a small load. Why is new load different for existing load? This paragraph should be eliminated completely.

h. The OATT will still apply to new loads supplied by a third party because it is included in the OATT tariff filed at the KPSC.

i. This is not always possible. You may violate the 15% limit.

j. I do not like the provision that the EKPC board must approve an acquisition of service territory to fall under the Wholesale Power contract and then, if it is not approved under the Wholesale Power Contract, get EKPC Board approval to serve that new territory from another source. EKPC does not have authority over the actions of the cooperatives unless it is given by contract or state statute.

The last sentence of section m on page 5, says that the transactions listed on Schedule B will not have to pay stranded costs. In addition, if the generation is utilized on the distribution system, the transmission and EKPC is unaffected by the purchase and therefore no charges apply.

n. EKPC should not be able to purchase through the distribution cooperative's system without paying distribution charges, similar to the OATT and without prior approval by the member and the KPSC. EKPC elected to construct its own distribution facilities to avoid utilizing JEC's facilities at the Laurel Landfill site.

General Comments

1. This agreement takes all of the rights from the member/owners and lets EKPC change the rules any time they do not want to do a deal.

2. What is Schedule A?

3. A good strategy for EKPC would be to develop a plan to help the cooperatives utilize Amendment #3 fairly. EKPC should help their members utilize renewables and new green sources as well as economic purchases. The total possible effect to EKPC is 5 % of its load. If done correctly, it could possibly lower all of our costs. The verbiage of Amendment #5 appears to block any use of third party power. It appears that it is designed to eliminate Amendment #3.

4. At the Managers' meeting on Amendment #3 and #5 in Bowling Green, Carol requested a copy of the spreadsheet on the billing determinates utilized to calculate the stranded costs addressed in the power point presentation. I understand that the billing determinates are over 10 years old and do not include the costs of anything that has happened in the past ten years. When was the last Cost of Service done at EKPC? How are rates developed if they are not cost based?

EAST KENTUCKY POWER COOPERATIVE

MEMORANDUM

TO: Board Directors
Member System Managers / CEOs

FROM: David Crews DMC

DATE: July 27, 2011

SUBJECT: Amendment No. 5

The proposed Amendment No. 5 to the Wholesale Power Contracts between EKPC and each of its Members raises a number of important fairness issues for Members to consider. The potential effects of a Member serving up to 5% of its load outside of the EKPC power supply system can reach beyond that Member's own power supply costs and affect the power supply costs of the other EKPC Members. After considerable analysis, and input from the Power Supply and Ownership Alternatives Sub-Committee and Members, the EKPC staff has put forth in Amendment No. 5 an approach we believe strikes an equitable balance among the costs and benefits to Members of allowing Members to purchase third-party power supply. Amendment No. 5 was reviewed and approved by the Governance Committee prior to the July Board Meeting. During the July Board Meeting, Board Members and CEOs were provided a copy of Amendment No. 5 during the Governance Committee report. An electronic copy of Amendment No. 5 with the most recent changes in red line is attached.

As part of our process in developing this approval, we reviewed several studies and reports on distributed generation. For those of you interested in studying these issues in more depth, I've put citations in a footnote[1] to several resources we found especially helpful.

---

[1] *Preamble to FERC Order No. 69*, as published in the Federal Register on February 25, 1980 (available at: http://www.ferc.gov/industries/electric/gen-info/qual-fac/orders/order-69-and-erratum.pdf.

Manual on Developing Rates for Distributed Generation, published by NRECA in 2001 (available at: http://www.nreca.org/issues/FuelsOtherResources/DistributedGeneration/Documents/A%20DG%20Rates%20Manual%20(UPDATED).pdf.

State Electricity Regulatory Policy and Distributed Resources: distribution System Cost Methodologies for Distributed Generation, published by the National Renewable Energy Laboratory in October 2002 (available at: http://www.nrel.gov/docs/fy03osti/32500.pdf.

The Potential Benefits of Distributed Generation and Rate-Related Issues that May Impede Their Expansion, a Study Pursuant to Section 1817 of The Energy Policy Act of 2005, published by the United States Department of Energy in February 2007 (available at: http://www.oe.energy.gov/DocumentsandMedia/1817_Study_Sep_07.pdf.

White Paper on Distributed Generation, published by NRECA in August 2007 (available at: http://www.nreca.coop/issues/FuelsOtherResources/DistributedGeneration/Documents/White%20Paper%20on%20Distributed%20Generation.pdf.

4775 Lexington Road 40391
P.O. Box 707, Winchester,
Kentucky 40392-0707

Tel. (859) 744-4812
Fax: (859) 744-6008
http://www.ekpc.coop

The essential concern with a Member obtaining third-party power supply is the potential for cost shifting to other Members. NRECA addresses the cost shifting affects of G&T members obtaining third-party power supply in its Manual on Developing Rates for Distributed Generation. Specifically, NRECA notes in the Manual that when a G&T loses load to distributed generation and is unable to market the released capacity and energy at a price equal to what it was receiving from the Member, the G&T will suffer a net loss of revenue. FERC has also addressed these cost shifting affects in its regulations addressing purchases by distribution cooperatives from Qualifying Facilities. In the introductory explanation of FERC Order 69, FERC recognized that the loss in revenue to the G&T from a member's purchases from a QF would cause the demand charges to the G&T's customers, including the member interconnected with the QF, to increase. Order 69 requires utilities to pay their "avoided cost" for QF power, so that the utility will be in the same position as if it had not purchased from the QF. Consistent with this approach, FERC concluded that rather than allocating lost revenue from QF purchases to all of a G&T's members, the G&T should assign all of the losses to the member purchasing from the QF, and the member should deduct those losses from the avoided cost rate it pays to the QF.

EKPC staff recognizes that third-party power supply obtained by a Member can provide benefits to all EKPC Members. The U.S. Department of Energy's 2007 report on its study of the potential benefits of distributed generation noted both the potential cost shifting effects of distributed generation, and numerous potential benefits, including savings from deferred investment in generation and transmission capacity, revenue from sales of excess capacity and energy, increases in system reliability, provision of ancillary services and increased power quality.

NRECA, DOE and the National Renewable Energy Laboratory have all emphasized that the potential benefits of any particular distributed generation unit are highly dependent on a number of factors, and that it is very difficult to develop a single model that can accurately predict the costs and benefits of all types of distributed generation. Factors that can affect the costs and benefits of distributed generation to a G&T system include:

- Timing of addition of DG in comparison to current balance of capacity to load and expected load growth
- Market conditions
- Expected useful life
- Dispatchability
- Reactive power capability
- Qualification as spinning or supplemental reserves
- Fuel and unit reliability

Given the variability in the costs and benefits of DG, the stranded cost calculation in the proposed Amendment No. 5 focuses on the three areas that are most likely to yield the highest "costs" (loss of revenue) and highest benefits (deferred investment and savings from lower fuel or purchased power costs).

The proposed Amendment No. 5 balances potential costs and benefits of third-party supply in the following ways:

- Providing that Members will not be required to pay stranded costs or be compensated for additional benefits for third-party supply from renewable energy resources. This is reflective of a policy decision to encourage renewable energy development in Kentucky, rather than a recognition of direct system benefits from renewable energy resources.

- Providing that Members will not be required to pay stranded costs or be compensated for additional benefits for third-party supply from generating units with a capacity of 2.5MW or smaller that are dispatchable by EKPC. This is reflective of a recognition that distributed generation that is dispatchable by EKPC can be managed by EKPC for the benefit of the entire EKPC system.

- Providing that third-party or self-supplies in use as of April 1, 2011 will not be required to pay stranded costs or be compensated for additional benefits.

- Requiring that for any other third-party supply, an individualized calculation of the estimated stranded costs and estimated additional benefits of the specific supply be made and appropriate credits and/or charges be made to the Member obtaining the third-party supply. Stranded costs are determined on the basis of generation plant depreciation, generation leases, fixed charges under long-term power purchases and interest expense associated with generation plant in service. Additional benefits are determined on the basis of any additional value the existence of the off-system power supply is estimated to have on EKPC system costs, through savings from deferred investment in generation or savings from lower fuel or purchased power costs. These calculations will be made on the basis of EKPC's production cost model.

Amendment No. 5 is the work product of many of our staff, internal and external legal counsel, input from Board Members and input from our Member CEOs. It has been an exercise in trying to find the right balance point. For Amendment No. 5 to become effective each Member will have to execute it. If you have any questions, please contact me.

dc/kf
Attachment

SUTHERLAND DRAFT: 5/25/11

Memo from **[T. Campbell/D. Mosier/D. Crews]** to Member Managers

The proposed Amendment No. 5 to the Wholesale Power Contracts between EKPC and each of its Members raises a number of important fairness issues for Members to consider. The potential effects of a Member serving up to 5% of its load outside of the EKPC power supply system can reach beyond that Member's own power supply costs and affect the power supply costs of the other EKPC Members. After considerable analysis, and input from the Power Supply and Ownership Alternatives Sub-Committee and Members, the EKPC staff has put forth in Amendment No. 5 an approach we believe strikes an equitable balance among the costs and benefits to Members of allowing Members to purchase third-party power supply. As part of our process in developing this approval, we reviewed several studies and reports on distributed generation. For those of you interested in studying these issues in more depth, I've put citations in a footnote[1] to several resources we found especially helpful.

The essential concern with a Member obtaining third-party power supply is the potential for cost shifting to other Members. NRECA addresses the cost shifting affects of G&T members obtaining third-party power supply in its Manual on Developing Rates for Distributed Generation. Specifically, NRECA notes in the Manual that when a G&T loses load to distributed generation and is unable to market the released capacity and energy at a price equal to what it was receiving from the Member, the G&T will suffer a net loss of revenue. FERC has also addressed these cost shifting affects in its regulations addressing purchases by distribution cooperatives from Qualifying Facilities. In the introductory explanation of FERC Order 69, FERC recognized that the loss in revenue to the G&T from a member's purchases from a QF would cause the demand charges to the G&T's customers, including the member interconnected with the QF, to increase. Order 69 requires utilities to pay their "avoided cost" for QF power, so that the utility will be in the same position as if it had not purchased from the QF. Consistent with this approach, FERC concluded that rather than allocating lost revenue from QF purchases to all of a G&T's members, the G&T should assign all of the losses to the member purchasing from

[1] *Preamble to FERC Order No. 69*, as published in the Federal Register on February 25, 1980 (available at: http://www.ferc.gov/industries/electric/gen-info/qual-fac/orders/order-69-and-erratum.pdf.

Manual on Developing Rates for Distributed Generation, published by NRECA in 2001 (available at: http://www.nreca.org/issues/FuelsOtherResources/DistributedGeneration/Documents/A%20DG%20Rates%20Manual%20(UPDATED).pdf.

State Electricity Regulatory Policy and Distributed Resources: distribution System Cost Methodologies for Distributed Generation, published by the National Renewable Energy Laboratory in October 2002 (available at: http://www.nrel.gov/docs/fy03osti/32500.pdf.

The Potential Benefits of Distributed Generation and Rate-Related Issues that May Impede Their Expansion, a Study Pursuant to Section 1817 of The Energy Policy Act of 2005, published by the United States Department of Energy in February 2007 (available at: http://www.oe.energy.gov/DocumentsandMedia/1817_Study_Sep_07.pdf.

White Paper on Distributed Generation, published by NRECA in August 2007 (available at: http://www.nreca.coop/issues/FuelsOtherResources/DistributedGeneration/Documents/White%20Paper%20on%20Distributed%20Generation.pdf.

the QF, and the member should deduct those losses from the avoided cost rate it pays to the QF.

EKPC staff recognizes that third-party power supply obtained by a Member can provide benefits to all EKPC Members. The U.S. Department of Energy's 2007 report on its study of the potential benefits of distributed generation noted both the potential cost shifting effects of distributed generation, and numerous potential benefits, including savings from deferred investment in generation and transmission capacity, revenue from sales of excess capacity and energy, increases in system reliability, provision of ancillary services and increased power quality.

NRECA, DOE and the National Renewable Energy Laboratory have all emphasized that the potential benefits of any particular distributed generation unit are highly dependent on a number of factors, and that it is very difficult to develop a single model that can accurately predict the costs and benefits of all types of distributed generation. Factors that can affect the costs and benefits of distributed generation to a G&T system include:

- Timing of addition of DG in comparison to current balance of capacity to load and expected load growth
- Market conditions
- Expected useful life
- Dispatchability
- Reactive power capability
- Qualification as spinning or supplemental reserves
- Fuel and unit reliability

Given the variability in the costs and benefits of DG, the stranded cost calculation in the proposed Amendment No. 5 focuses on the three areas that are most likely to yield the highest "costs" (loss of revenue) and highest benefits (deferred investment and income from off-system sales).

The proposed Amendment No. 5 balances potential costs and benefits of third-party supply in the following ways:

- Providing that Members will not be required to pay stranded costs or be compensated for additional benefits for third-party supply from renewable energy resources. This is reflective of a policy decision to encourage renewable energy development in Kentucky, rather than a recognition of direct system benefits from renewable energy resources.

- Providing that Members will not be required to pay stranded costs or be compensated for additional benefits for third-party supply from generating units with a capacity of 2.5MW or smaller that are dispatchable by EKPC. This is reflective of a recognition that distributed generation that is dispatchable by EKPC can be managed by EKPC for the benefit of the entire EKPC system.

- Providing that third-party or self-supplies in use as of April 1, 2011 will not be required to pay stranded costs or be compensated for additional benefits.

- Requiring that for any other third-party supply, an individualized calculation of the estimated stranded costs and estimated additional benefits of the specific supply be made and appropriate credits and/or charges be made to the Member obtaining the third-party supply. Stranded costs are determined on the basis of generation plant depreciation, generation leases, fixed charges under long-term power purchases and interest expense associated with generation plant in service. Additional benefits are determined on the basis of any additional value the existence of the off-system power supply is estimated to have on EKPC system costs, through savings from deferred investment in generation and transmission capacity or income from sales of excess energy. These calculations will be made on the basis of EKPC's production cost model, which will be updated at least every two years.

DRAFT: 6/10/11

AMENDMENT NO. 5 TO WHOLESALE POWER CONTRACT
BETWEEN
EAST KENTUCKY POWER COOPERATIVE, INC.
AND
[NAME OF MEMBER]

This Amendment No. 5 to Wholesale Power Contract (this "Amendment"), dated as of ____________________, 2011, amends the Wholesale Power Contract, dated October 1, 1964, between East Kentucky Power Cooperative, Inc. (hereinafter, the "Seller") and **[Name of Member]** (hereinafter, the "Member"), as heretofore amended, as follows:

I. Numerical Section 1 of the Wholesale Power Contract is amended and restated to read in its entirety as follows:

1. General - The Seller will sell and deliver to the Member and the Member will purchase and receive from the Seller all electric power and energy which will be required to serve the Member's load, including all electric power and energy required for the operation of the Member's system. Notwithstanding the foregoing, the Member will have the option, from time to time, to receive electric power and energy from suppliers other than the Seller or from facilities owned or leased by the Member, subject to and in accordance with the following terms and conditions, and policies and procedures established and maintained by the Seller, as amended by the Seller from time to time, for implementing elections by the Member to exercise such option.

For any election under this Section, the following provisions will apply:

a. Except as specifically provided in Subsections g. and l. below, the Member will be responsible for all stranded costs and all additional costs incurred by the Seller as a result of such election. For purposes of this Section 1, stranded costs will be determined on the basis of a fixed cost component and two credit components, which will be calculated and payable as follows:

i. The fixed cost component will be calculated annually and will include the following expenses incurred by the Seller that would be covered by the rates paid by the Member under this contract if the Member had not made the election for third-party supply or self-supply:

1. Depreciation expense on generation plant in service;
2. Payments under leases of generation plant;
3. Fixed charges under power supply purchase agreements with a term longer than one year; and
4. Interest expense associated with generation plant in service.

For each calendar year the election is in effect, the fixed cost component will be due and payable in advance by January 30th of that calendar year. At the end of each calendar year the election is in effect, the Seller will re-calculate the fixed cost component based on actual expenses, and any over-payment or under-payment of the fixed cost component will be credited or added to the fixed cost component payable by the Member in the subsequent calendar year.

ii. The future capital investment credit, if any, will be determined at the time an election under this Section 1 is made. The production cost model reflecting the current resource plan will be run to determine if the load to be removed would result in the delay of any future capital investment by the Seller. The net present value resulting from any such delay will be credited to the Member in one lump sum on the invoice under this contract for the first month the election goes into effect.

iii. The energy market credit component will be payable only after the Seller obtains all regulatory approvals required for changes to the Seller's rates under this contract and the other all requirements wholesale power contracts between the Seller and its other members designed to collect the cost of this credit from the other members of the Seller. The Seller will promptly apply for and use commercially reasonable efforts to obtain such approvals. This credit component will be calculated monthly using the production cost model. After the end of each month, the production cost model will be run with and without the load that was actually served by the Member's third-party supply or self-supply. The run with such load will be based on the assumption that during each hour in which the Seller purchased energy from the market, the load actually served by the Member's third-party supply or self-supply could have been served by a purchase from the market at the same market price the Seller paid in such hour. If the average cost per MWh result of the run with such load is greater than the average cost per MWh result of the run without such load, the energy market credit component for such month will equal the difference between the two results (in dollars per MWh) multiplied by the amount of energy (in MWhs) actually served by the Member's third-party or self-supply in such month. If the average cost per MWh result of the run with such load is equal to or less than the average cost per MWh result of the run without such load, the energy market credit component for such month will be zero. After the end of each calendar year, the Seller will determine the sum of the energy market credit component for each month of that year, and will credit such sum to the Member in one lump sum on the invoice under this contract for power and energy sold in January of the following calendar year, minus any out-of-pocket expenses incurred by the Seller in calculating such credit.

The Seller will evaluate, and make appropriate adjustments to, the production cost model no less frequently than every two years to ensure that such model reflects a reasonable estimate of the Seller's production costs.

b. In connection with each election to purchase from a third-party supplier or self-supply, the maximum amount of capacity the Member may elect to so purchase or supply, together with the amount of capacity, if any, the Member is then purchasing from a third-party supplier or self supplying and the amount, if any, the Member has transferred to one or more other members of the Seller pursuant to Subsection c., is five percent (5%) of the average of the Member's peak demand coincident with the Seller's peak demand in each of the three most recently completed calendar years immediately preceding the Member's election. The Member may, in connection with any such election, exceed this maximum amount of capacity by any amount of entitlement to obtain third-party supply or self-supply of another member of the Seller that the Member has obtained from the other member, provided that the Member and the other member have provided prior written notice to the Seller in accordance with the Seller's policies and procedures.

c. The Member may from time to time transfer to another member of Seller all or any portion of its entitlement under this Section 1 to obtain third-party supply for, or self supply, load. The maximum amount of such entitlement the Member may transfer at any time is the maximum amount the Member may elect at such time to obtain third-party supply for, or self-supply, its own load.

d. Transmission services and ancillary services needed to deliver any such third-party supply or self-supply to the Member's system will not be provided to the Member under this contract. In connection with each election to purchase from a third-party supplier or self-supply, if such third-party supply or self-supply is delivered to the Member's system across the Seller's transmission system, the Member or the third-party supplier must separately purchase transmission and ancillary services from the Seller pursuant to the Seller's Open Access Transmission Tariff.

e. The third-party supply, or self-supply, must be a firm capacity and energy supply, and must (1) be provided by a Distributed Generation Resource or a Renewable Energy Resource or (2) serve (i) the actual hourly load of one or more specifically identified retail meters, (ii) a percentage of the Member's actual hourly load at specified delivery points, (iii) a fixed hourly supply schedule, so long as the Member or third-party supplier purchases from the Seller energy imbalance service and such other transmission and ancillary services as are required pursuant to Subsection d. with respect to such supply, or (iv) such other load as is approved in accordance with the Seller's policies and procedures. For purposes of this Section 1, a "Distributed Generation Resource" is an electric generator, or combination of generators at a single location, with a total nameplate capacity of not more than 2,500 kW, owned by the Member or a third-party supplier, and which is subject to the exclusive dispatch control of the Seller. For purposes of this Section 1, a "Renewable Energy Resource" is an electric generator owned by the Member or a third-party supplier, which is powered by solar, wind, biomass, geothermal, water motion, water thermal, landfill gas or stranded gas energy sources.

f. The responsibilities of the Member with respect to load served by a third-party or the Member will vary as provided in Subsections h. and i. depending on whether the load is New

Load or Existing Load. For purposes of this Section 1, "New Load" means (i) retail load within the Member's current distribution system footprint of at least 2,500 kW for a customer, as measured at one or more of such customer's meters, as to which the Member makes the election at the time the Member first starts serving load at such meters, (ii) retail load of at least 2,500 kW at one or more of a customer's meters previously served by the Member and at which new or re-started operations commence after a period of at least twelve (12) months during which no electric service was provided by the Member to such meters, or (iii) load of a newly acquired service territory as to which the Member makes the election at the time the Member first acquires the service territory. For purposes of this Section 1, "Existing Load" means any load that is not a New Load.

g. If the load to be served by a third-party or the Member is New Load, or if the third-party supply or self-supply is from a Distributed Generation Resource or a Renewable Energy Resource, the Member will not be obligated to reimburse the Seller for stranded costs.

h. The Member will be responsible for obtaining all additional supply for any load growth for: (i) any New Load and (ii) any Existing Load that is a specifically identified retail load.

i. The Member must give the Seller at least one hundred eighty (180) days prior written notice of any election under this Section 1 to purchase from a third-party supplier or self-supply. The Member must give the Seller at least one (1) year, or such longer period as may be required to permit the Seller to comply with the Seller's capacity obligations in any organized capacity market in which the Seller participates, prior written notice to cancel any such election and obtain supply under this contract for the applicable load. All such notices must comply with the Seller's policies and procedures. In addition, with respect to any load in new service territory described in Subsection g(iii) as to which the Member elected third-party or self supply, the Seller's Board of Directors must approve any election by the Member to obtain supply under this contract for load in such territory.

j. The effective date of the Member's cancellation of any such election may not be prior to the end of the term of such election as indicated by the Member when the election was first made, unless the Board of Directors approves an earlier cancellation date. Upon the effective date of the Member's cancellation of any such election, the applicable load will be governed by the all requirements obligations of the Seller and the Member in this Section 1, and the Member may not thereafter elect to serve such load from suppliers other than the Seller or from facilities owned or leased by the Member.

k. The Seller will make available interconnection, transmission, and other ancillary services to any third-party supplier or the Member in accordance with its Open Access Transmission Tariff as in effect from time to time, pursuant to separate agreements with such terms and conditions as are acceptable to the Seller and the third-party supplier or the Member, as the case may be, without discrimination or adverse distinction with regard to rates, terms of service or availability of such service, as required by law.

l. Set forth on Schedule B hereto is a list of all electric generation supply that is used by any member of the Seller to serve any portion of its load and is not provided to such member by the Seller. The Seller will modify Schedule B from time to time to reflect changes thereto in connection with the exercise by the Member or other members of the Seller of the third-party and self-supply options set forth in this Section 1 and in the other all-requirements wholesale power contracts between the Seller and the other members. The Member acknowledges and agrees that the capacity of such supply reflected on Schedule B as being used by the Member will, for so long as such supply continues to be used by the Member to serve its load, be taken into account in calculating pursuant to Subsection b. the remaining amount of capacity the Member may elect to purchase from a third-party supplier or self-supply. The Seller hereby agrees that no stranded costs, and no additional costs incurred by the Seller, as a result of the supplies listed on Schedule B as of April 1, 2011 will be payable by the members that use such supplies.

m. At the request of the Member or any other member of the Seller, the Seller may purchase wholesale power from a third party and re-sell such power to members of the Seller under agreements with such purchasing members that are separate from such purchasing members' all-requirements wholesale power contracts with the Seller. Any such purchases by a member of the Seller will be treated as an election to obtain third-party supply for all purposes of this contract and the other all-requirements wholesale power contracts between the Seller and the other members.

II. The Wholesale Power Contract is hereby amended to add the Schedule B attached to this Amendment as Schedule B to the Wholesale Power Contract.

III. Effectiveness - This Amendment will become effective only upon approval in writing by the Administrator of the Rural Utilities Service.

DRAFT: 6/10/11

IN WITNESS WHEREOF, the Seller and the Member have caused this Amendment to be executed and attested by their respective duly authorized officers, as of the day and year first written above.

EAST KENTUCKY POWER COOPERATIVE, INC.

BY:______________________________
ITS:______________________________

Attest: ______________________________
SECRETARY

[NAME OF MEMBER]

BY:______________________________
ITS:______________________________

Attest: ______________________________
SECRETARY

DRAFT: 6/10/11

Schedule B
To
Wholesale Power Contract, dated as of October 1, 1964, as amended

Member Third-Party or Self-Supply Pursuant to Section 1
As of ____________, 2011

Member	Description of Supply	Capacity	Type*
Big Sandy RECC			
Blue Grass Energy			
Clark Energy			
Cumberland Valley Electric			
Farmers RECC			
Fleming-Mason Energy			
Grayson RECC			
Inter-County Energy			
Jackson Energy			
Licking Valley RECC			
Nolin RECC			
Owen Electric			
Salt River Electric			
Shelby Energy			
South Kentucky Rural Electric			
Taylor County RECC			

**Types of supply are: DG – Distributed Generation*
RE – Renewable Energy
TP – Third-Party Supply
SS – Self-Supply

EAST KENTUCKY POWER COOPERATIVE

Policy No. 305

March 9, 2004

ALLOCATION PROCEDURES FOR NON-EKPC-SOURCED POWER ACQUISTIONS UNDER WHOLESALE POWER CONTRACT AMENDMENT NUMBER 3

I. BACKGROUND

Amendment Number 3 to the Wholesale Power Contract between East Kentucky Power Cooperative ("EKPC") and its member systems allows each member system executing the Amendment to purchase or otherwise acquire power and energy from non-EKPC sources up to a maximum of 15% of the member system's 3-year rolling average peak load (the "15% Option"), provided that the total of all such non-EKPC acquisitions by all member systems does not exceed 5% of EKPC's 3-year rolling average peak load (the "5% Cap").

II. OBJECTIVE

The objective of this Board Policy is to provide a reasonable mechanism to allocate the 5% Cap among the member systems so that those member systems with specific, identifiable projects that would be facilitated by the use of the 15% Option can proceed in a timely manner.

III. CONTENT

A. An Allocation Pool is hereby created which will be made up of the combined total of the unused portions of each member system's load ratio share of the 5% Cap, as hereinafter set out.

B. An Allocation Committee is hereby created as hereinafter set out which will administer the allocation of the unused portions of the member systems' load ratio share of the 5% Cap in the Allocation Pool to requesting eligible member systems.

C. (1) As soon as is reasonably possible, but no later than 90 days after either the adoption of this Board Policy or the execution of Amendment Number 3 of the Wholesale Power Contract, whichever is later, each member system shall submit to the Allocation Committee a detailed, written plan of its intended use of its 15% Option (the "Plan"). Each Plan shall include the following:

a) Whether or not the member system intends to use all or any portion of its load ratio share of the 5% Cap within 6 months of the date of submittal of the Plan;

b) How much of its load ratio share of the 5% Cap the member system intends to use;

c) A detailed description of the specific use to which it will be put;

d) The anticipated time frame within which the use will occur;

e) Any contracts or other agreements executed with respect to such use, and if none, the status of negotiations for such contracts or agreements and the anticipated date of execution thereof; and

f) Any other information that may be requested by the Allocation Committee.

(2) A member system may immediately proceed to utilize that portion of its load ratio share of the 5% cap identified in its Plan.

(3) If a member system's Plan reveals that the member system does not intend to use any or all of its load ratio share of the 5% Cap, then the unused portion will be place in the Allocation Pool.

(4) If, within 6 months from the submittal of its Plan, a member system does not use the portion of its load ratio share of the 5% Cap as stated in the Plan, or, if reasonable progress, in the determination of the Allocation Committee, has not been made by the member system toward such use, then that portion of the 5% Cap will be placed in the Allocation Pool.

(5) The Allocation Committee may require periodic progress reports with respect to such use at intervals of the Committee's determination.

D. (1) At any time after submittal of its Plan, a member system who desires an initial allocation or an allocation of more than its load ratio share of the 5% Cap, shall submit a written request to the Allocation Committee, which request shall contain the same type of information as required by Paragraphs III(C)(1)(a-f) hereof.

(2) The Committee shall determine whether to grant such a request by majority vote.

(3) If, within 6 months from the granting of any such request by the Committee, a member system has not used the allocation, or if reasonable progress, in the determination of the Committee, has not been made toward such use, then the allocation shall be returned to the Allocation Pool.

E. Any new member of EKPC admitted by the EKPC Board of Directors ("Board") shall have the same rights as existing members with respect to the 15% Option and 5% Cap upon execution by the new member of the Wholesale Power Contract including Amendment Number 3. The new member shall submit a Plan within 90 days of its execution of the Wholesale Power Contract.

To be deleted

F. The use of 15% Option shall be limited to the following:

1) Service of new load acquired by a member system and which was not part of the member's traditionally recognized service territory as certified by the Kentucky Public Service Commission pursuant to KRS 278.017.

2) Distributed Generation projects owned by a member system.

3) Other uses as established by the Board.

G. A member may exceed the 15% Option only upon approval of the Board and RUS. Any request by a member system to so exceed its 15% Option shall be made in writing to the Allocation Committee and shall include all relevant information and justifications for such request. The Committee shall have the authority to request any additional information or documentation it feels is necessary or advisable. The Committee shall review and consider the request and make a recommendation to the full Board for action.

H. Any determination or decision of the Allocation Committee may be reviewed by the Board at the request and upon the motion of any director and the Board may affirm, overturn or modify such determination or decision in its discretion.

IV. ORGANIZATIONAL RELATIONSHIPS

A. The Allocation Committee shall report directly to the Board.

B. The Allocation Committee shall have 5 members, 3 of which shall be managers of member systems, 1 of which shall be a regular director of the Board, and 1 of which shall be an employee or other representative of EKPC. The members shall be appointed by the Chairman of the Board with the advice and consent of the other officers of the Board and in consultation with the President and CEO in accordance with Board Policy 105 and shall serve at the pleasure of the Board.

C. The Committee is a continuing one, except for the EKPC representative, and the term of each member shall run for one year, coincident with the term of the Chairman of the Board, or until his successor is appointed. Appointments of committee members shall be staggered so that no more than two members leave the Committee each year. No member shall serve more than 4 consecutive years except that the term of the EKPC representative shall be indefinite.

D. The Committee shall annually elect a Chairman, Vice-Chairman and Secretary. Minutes of each meeting shall be kept. The Chairmen of other Board Committees or any Board officer shall not be Chairman of the Allocation Committee.

E. Meetings of the Committee shall be held at the call of the Committee Chairman, the Chairman of the Board, or at the call of three members of the Committee when there are items or other issues for consideration by the Committee. The time, location and agenda of the meeting shall be set in the notice.

Amendment No.5 Deliverables

EKPC staff

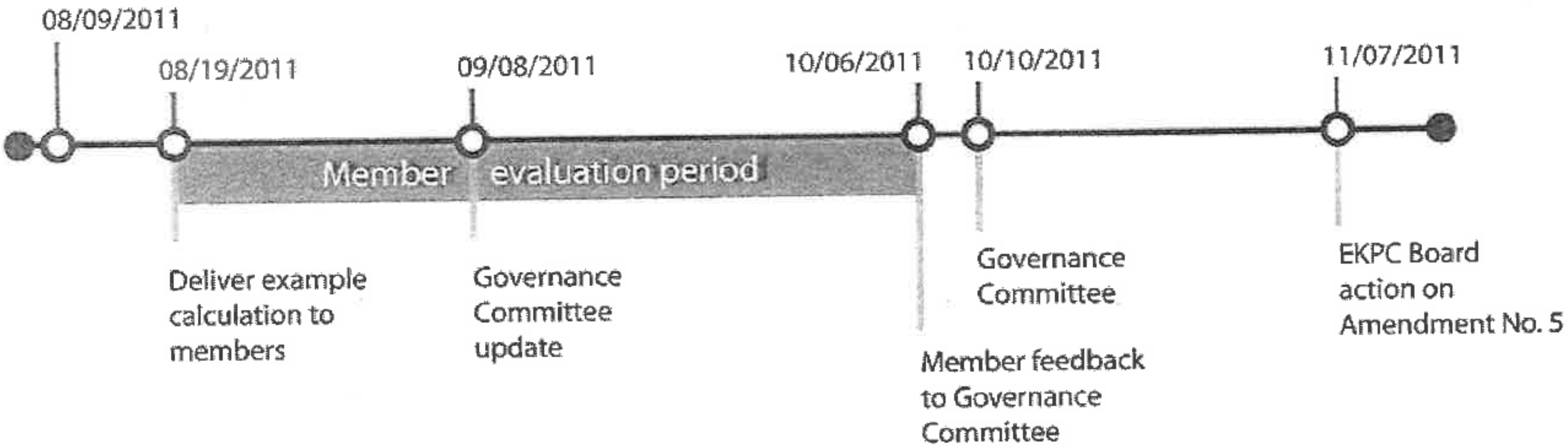
- Example calculation of 5% for each Member (08/12/2011)
- Example calculation of Stranded Cost (08/19/2011)
- Example calculation of Capital Investment Credit (08/19/2011)
- Example calculation of Energy Market Credit (08/19/2011)
- Answers to any Member's questions will be distributed to all Members

Members

- Comments to David Crews for Gov. Committee consideration (10/06/2011)

Amendment No.5

Amendment No. 5 Timeline



From: Tony Campbell
To: Michelle Carpenter
Subject: FW: Amendment #5 Data Request
Date: Monday, August 15, 2011 4:21:34 PM

Best regards,
Anthony "Tony" Campbell
President and CEO
Phone: 859-745-9313
Fax: 859-744-7053

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

From: David Crews
Sent: Friday, August 12, 2011 12:01 PM
To: forward to davismart at FTB; Mike McNalley; Sherman Goodpaster; Don Mosier; Denver York; Roger Cowden; Roger Cowden; Tony Campbell
Subject: FW: Amendment #5 Data Request

FYI

From: Mark Stallons [mailto:mstallons@owenelectric.com]
Sent: Friday, August 12, 2011 11:42 AM
To: David Crews
Cc: Don Schaefer; Larry Hicks; Joe Linxwiler
Subject: Amendment #5 Data Request

David:

Here is the contact information for Linxwiler Consulting.

Linxwiler Consulting Services, Inc.
550 N. Bumby Avenue, Suite 110
Orlando, FL 32803
Phone: 407-770-0207

Fax: 407-770-0209
jnl@linxwiler.com

As explained in a previous email. Our use of Linxwiler Consulting Services is part of our "Fresh Look" as required by the Commission. Should you have any questions regarding the data request please contact Linxwiler Consulting. A similar arrangement as was made with Guernsey will be more than adequate. Time is of the essence if we are to meet the timeline you distributed at Tuesday's board meeting.

Thanks,

Mark

Mark A. Stallons
President & CEO

Owen Electric Cooperative
8205 Hwy 127N; PO Box 400
Owenton, KY 40359

Direct Line: 502-563-3500
Mobile: 502-514-1650
Email: mstallons@owenelectric.com

OWEN Electric

Grayson Notice to Exercise Amendment # 3

July 16, 2012

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

Grayson's Request

- Received letter stating Grayson intends to receive electric power from Magnum Drilling of Ohio
  - States this would equate to 10.7 MW
  - States 10.7 MW is approximately 15% of Grayson's 3-year rolling average of their peak
  - States this will equate to $800K in member savings per year
  - States Other details available upon request

Update on Amendment # 3

- Amendment # 3 was signed by Owner-Members in 2003
- Jackson Energy requested to exercise 15% and resupply with a 7 x 24 purchase
- Jackson understood if approved, it would have adverse/unfair economic impact to other EKPC Owner-Members; (Jackson agreed to withdraw their request if EKPC would amend.)
- After several iterations, Amendment # 5 was proposed.
- We have reached an impasse regarding Amendment #5 with Salt River, Owen, Jackson and Grayson
- EKPC agreed to recommend withdrawal of Amendment #5, with the above group agreeing to find a solution by way of an MOU to Amendment #3 agreed to by all Owner-Members.

Owner-Member Proportionment

Owner-Member Cooperative Amendment 3 Limits, Based on Data Through Jun 2012, in MW

Owner-Member Cooperative	Jul 2009 - Jun 2010	Jul 2010 - Jun 2011	Jul 2011 - Jun 2012	Average	5% Election	15% Election
Big Sandy	68.6	75.2	61.8	68.5	3.4	10.3
Blue Grass	304.6	331.7	278.2	304.9	15.2	45.7
Clark	114.0	126.8	102.7	114.5	5.7	17.2
Cumberland Valley	125.4	139.8	118.1	127.8	6.4	19.2
Farmers	120.1	119.2	102.9	114.0	5.7	17.1
Fleming Mason	163.3	162.3	150.0	158.5	7.9	23.8
Grayson	63.2	69.2	56.3	62.9	3.1	9.4
Inter County	132.6	135.7	111.8	126.7	6.3	19.0
Jackson	252.0	278.8	219.8	250.2	12.5	37.5
Licking Valley	65.2	74.0	59.4	66.2	3.3	9.9
Nolin	184.7	184.9	163.1	177.6	8.9	26.6
Owen (Ex Gallatin Steel)	244.6	256.9	263.1	254.9	12.7	38.2
Salt River	231.9	255.0	241.2	242.7	12.1	36.4
Shelby	95.1	104.3	89.7	96.4	4.8	14.5
South Kentucky	354.0	366.8	304.3	341.7	17.1	51.3
Taylor	129.4	127.2	105.0	120.5	6.0	18.1
Total	2648.7	2808.0	2427.3	2628.0	131.4	

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

EKPC's Interpretation of Amendment # 3

- The spirit of Amendment #3 was based on Owner-Member fairness.
- Every Owner-Member should have the opportunity to benefit from their 5% self-supply option.
- Owner-Member pays stranded investment costs based on cost-shifting to remaining members for that portion of their load no longer served by EKPC assets.
- Based on the fairness principle, staff believes no Owner-Member should be permitted to exceed their 5% without another Owner-Member's agreement to forfeit a portion of their 5%.
- Staff believes territory takeover should be handled in a different manner.
- Discuss Policy #304/305

Ramifications of Allowance to Exceed 5%

- Other Owner-Members will loose a portion, or all of their 5% option.
- Even with stranded investment recovery, there is risk.
- There will be a proverbial "run on the bank".
- Denying a portion of Grayson's request could divide the Board.
- Not certain how the PSC will react.

Legal Interpretation

- Amendment # 3 was written by RUS
- Amendment #3 is not a well written document
- Amendment #3 states the Owner-Member may not exceed 15%; does not state the Owner-Member may automatically take 15%; confirmed by Adoption of 305 as mechanism
- RUS, each Owner-Member, and EKPC are parties to the wholesale power agreement and amendments
- Legal feels EKPC can defend its position

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

Staff Recommendation

- Request that other Owner-Members possibly assist Grayson by relinquishing a portion of their 5% option
- EKPC would be willing to work with Grayson and, if good economic prospect, take the amount over their 5%. Assuming the PSC grants approval.
- EKPC recommends Board only approve Grayson's 5%, 3-year rolling average; Any additional percentage should be denied

EAST KENTUCKY POWER COOPERATIVE
A Touchstone Energy Cooperative

Questions and Discussion

EAST KENTUCKY POWER COOPERATIVE

EAST KENTUCKY POWER COOPERATIVE, INC.
MINUTES OF BOARD MEETING
APRIL 13, 2004

A regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. ("EKPC") was held at the French Quarter Inn, 25 East McDonald Parkway, Maysville, Kentucky, on Tuesday, April 13, 2004, at 10:20 a.m. EDT pursuant to proper notice.

Chairman Delno Tolliver called the meeting to order. Paul Atchison gave the invocation. The minutes were kept under the supervision of Secretary Sam Penn. The secretary took the roll call with the following directors present:

Mike Adams	Licking Valley
Fred Brown	Jackson
Overt Carroll, Alternate	Clark Energy
Donnie Crum	Grayson
Danny Divine	Inter-County
E. A. Gilbert	Blue Grass
Jimmy Longmire	Salt River
C. F. Martin	Farmers
Wade May	Big Sandy
Sam Penn	Owen
A. L. Rosenberger	Nolin
Rick Stephens	South Kentucky
Wayne Stratton	Shelby
Delno Tolliver	Cumberland Valley
Lonnie Vice	Fleming-Mason

Taylor County RECC was not represented. Also present was Crowe Chizek representative, Steve Jennings.

BOARD MINUTES

On motion of A. L. Rosenberger, seconded by Danny Divine, the minutes of the March 9, 2004, regular board meeting were approved.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted] (FER[redacted]

[redacted].

MEMBER SYSTEM NEEDS

Board Policy No. 305—Allocation Procedures for Non-EKPC-Sourced Power Acquisitions Under Wholesale Power Contract Amendment No. 3 - Following a request and discussion, it was agreed that this Board Policy be changed to extend the length of time for response by the member systems. This will be an item before the Board in May.

[redacted].

APRIL

Board Agenda Item

TO: Power Delivery Committee and Board of Directors

FROM: Roy M. Palk Roy M. Palk

DATE: April 2, 2004

SUBJECT: Approval of Oxford Substation and Tap Project, Bedford Substation Upgrade/Rebuild Project, Grant's Lick #2 Substation Upgrade Project, Plummers Mill Substation and Tap Project, Richardson #2 Substation Addition Project, South Point Substation and Tap Project, Upchurch Substation and Tap Project, Oak Ridge Substation and Tap Project, and Amendment of EKPC Three Year Work Plan (November 2002-October 2005)
(Construction and Finance)
(Executive Summary)

KEY MEASURE(S) This action supports the delivery of facilities at a competitive cost, on time and of good quality.

Background

An Amendment to the East Kentucky Power Cooperative's ("EKPC") Rural Utilities Service ("RUS")-required Three-Year Work Plan (November 2002-October 2005) identifies additional transmission facilities and modifications needed by EKPC to economically and reliably serve projected load growth. This work plan amendment was developed from the results of load flow and economic analysis using input from EKPC member system work plans, EKPC's Market Research Process, Power Delivery Maintenance Process and Power Delivery Expansion Process.

This amendment basically covers two categories of projects including:

(1) Transmission Line Additions

(2) New Substations, Substation Additions and/or Modifications

Justification and Strategic Analysis

Categories (1) and (2) above consist of facilities related to member system distribution substations and improvements to the transmission system.

Board Agenda Item

APRIL

A. Blue Grass Energy Cooperative Corporation ("BGECC") is experiencing significant load growth in the vicinity of Lee's Lick Substation in Scott County. The 2002 Power Requirements Study ("PRS") projects Lee's Lick Substation to reach 18.8 MVA under extreme 2007/08 winter conditions. The existing transformer has a maximum winter rating of 18.1 MVA and would experience a thermal overload of 3.9 percent under these conditions. Due to the Toyota Manufacturing Facility in Scott County, BGECC has experienced steady residential growth near the community of Oxford for the past few years and anticipates continuing load growth with the recent development of a new industrial park north of Oxford. This area is currently being served by an eight-mile, 12.5 kV distribution feeder that extends out of Lee's Lick Substation. The distribution feeder is experiencing extremely low voltage during winter peak conditions.

   A joint planning study between EKPC and BGECC has confirmed the need and justification for a new 69-12.5 kV, 11.2/14 MVA distribution substation ("Oxford") and 0.8 mile, 69 kV transmission tap line from Kentucky Utilities Company's ("KU") Scott County/Adams – Millersburg 69 kV line. The new Oxford Substation will eliminate costly distribution improvements and improve distribution reliability by shortening existing 12.5 kV circuits.

   This project is approximately $44,000 more in twenty-year present worth dollars than the least cost plan. However, the additional reliability benefits outweigh the additional costs. The total estimated project cost is $760,000 with a target in service date of December 2004.

B. Shelby Energy Cooperative ("SEC") and Kentucky Utilities Company ("KU") are experiencing significant load growth in the vicinity of the Bedford Substation in Trimble County. The Bedford Substation currently serves load for both SEC and KU. The PRS projects Bedford Substation to reach 14.5 MVA under extreme 2005 summer conditions. The existing transformer has a maximum summer rating of 13.6 MVA and would experience a 6.6 percent overload under these conditions. A joint planning study between EKPC, SEC and KU has confirmed the need and justification for upgrading/rebuilding Bedford Substation to 69-12.5 kV, 15/20/25 MVA. The total project cost is $750,000 with a target in service date of May 2005.

C. Owen Electric Cooperative ("OEC") is experiencing significant load growth in the vicinity of the Grant's Lick #2 Substation in Campbell County. The PRS projects Grant's Lick #2 Substation to reach 16.3 MVA under extreme 2005 summer conditions. The existing transformer has a maximum summer rating of 13.6 MVA and would experience a 19.9 percent overload under these conditions. A joint planning study between EKPC and OEC has confirmed the need and justification for upgrading Grant's Lick #2 Substation to 69-25 kV, 15/20/25 MVA. The total project cost is $379,000 with a target in service date of May 2005.

Board Agenda Item

APRIL

D. Fleming-Mason Energy Cooperative ("FMEC") is experiencing significant load growth in the vicinity of Flemingsburg and Hillsboro Substations in Fleming County. EKPC will convert the existing Flemingsburg Substation to 138-25kV, 12/16/20 MVA in 2004 to accommodate the new Spurlock - Flemingsburg – Goddard 138 kV line that is required to support Spurlock generation. The PRS projects Flemingsburg Substation to reach 21.6 MVA under extreme 2005 summer conditions. The new 12/16/20 MVA transformer at Flemingsburg has a maximum summer rating of 19.2 MVA and would experience a 12.5 percent overload under these conditions. A second 12/16/20 MVA, 138-25kV substation at Flemingsburg was previously approved for construction to avoid this potential overload. However, adding capacity at Flemingsburg Substation does not facilitate the need for improving reliability of the FMEC distribution system.

   A joint planning study between EKPC and FMEC has confirmed the need and justification for a new 69-12.5 kV, 11.2/14 MVA distribution substation ("Plummers Mill") and 0.19 mile, 69 kV transmission tap line from EKPC's Goddard – Hilda 69 kV line. The new Plummers Mill Substation will eliminate costly distribution improvements and improve distribution reliability by shortening existing circuits. Plummers Mill Substation will eliminate the need for the previously approved Flemingsburg #2 138-25 kV, 12/16/20 MVA Substation Addition.

   This project is approximately $109,000 more in twenty-year present worth dollars than the least cost plan. However, the additional reliability benefits outweigh the additional costs. The total estimated project cost is $609,000 with a target in service date of May 2005.

E. Owen Electric Cooperative ("OEC") is experiencing significant load growth in the vicinity of the Turkey Foot and Richardson Substations in Kenton County. The PRS projects Richardson Substation to reach 15.5 MVA under extreme 2005 summer conditions. The existing transformer has a maximum summer rating of 13.6 MVA and would experience a 14.0 percent overload under these conditions. The PRS also projects Turkey Foot Substation to reach 14.0 MVA under extreme 2006 summer conditions. The existing Turkey Foot transformer has a maximum summer rating of 13.6 MVA and would experience a 2.9 percent overload under these conditions. A joint planning study between EKPC and OEC has confirmed the need and justification for constructing Richardson #2 69-12.5 kV, 11.2/14 MVA Substation Addition. The total project cost is $430,000 with a target in service date of May 2005.

F. BGECC is experiencing significant load growth in the vicinity of Davis Substation in Jessamine County. A large-scale commercial and residential development is underway near the Fayette/Jessamine County line along US 27. Several businesses, including a fourteen-theater cinema, are scheduled to be in operation by summer 2005. Davis Substation has a maximum summer rating of 13.6 MVA and will overload by

Board Agenda Item

APRIL

8.1 percent in 2008 summer. The distribution system currently serving the area is inadequate and new facilities must be constructed to provide service to the new loads.

A joint planning study between EKPC and BGECC has confirmed the need and justification for a new 69-12.5 kV, 11.2/14 MVA distribution substation ("South Point") and 0.19 mile, 69 kV transmission tap line from KU's Higby Mill – Fawkes 69 kV line. The new South Point Substation will eliminate costly distribution improvements and provide reliable service to the new commercial establishments.

This project is the least cost alternative with a twenty-year present worth cost savings of approximately $213,000 when compared with the next best alternative. The total estimated project cost is $724,000 with a target in service date of May 2005.

G. SKRECC is experiencing significant load growth in the vicinity of Snow Substation in Clinton County. The PRS projects Snow Substation to reach 15.9 MVA under extreme 2005 summer conditions. The existing transformer has a maximum summer rating of 13.6 MVA and would experience a thermal overload of 16.8 percent under these conditions. SKRECC is continually experiencing voltage problems in the area between Snow, Zula and Albany Substations. By 2006, SKRECC anticipates that approximately five miles of existing distribution facilities will require extra capacity.

A joint planning study between EKPC and SKRECC has confirmed the need and justification for a new 69-12.5 kV, 11.2/14 MVA distribution substation ("Upchurch") and 1.75 mile, 69 kV transmission tap line from EKPC's Wayne County – Albany 69 kV line. The new Upchurch Substation will eliminate costly distribution improvements and improve distribution reliability by shortening existing 12.5 kV circuits. Back feed capability between the area substations will also be improved with the addition of Upchurch Substation.

This project is approximately $186,000 more in twenty-year present worth dollars than the least cost plan. However, the additional reliability benefits outweigh the additional costs. The total estimated project cost is $918,000 with a target in service date of May 2005.

H. FMEC is experiencing significant load growth in the vicinity of Charters Substation in Lewis County. The PRS projects Charters Substation to reach 14.3 MVA under extreme 2006 summer conditions. The existing transformer has a maximum summer rating of 13.6 MVA and would experience a thermal overload of 5.2 percent under these conditions. The FMEC distribution system in Lewis County has been a reliability concern for quite some time due to rough terrain and long feeders. With very little backfeed capability, this area experienced two-week outages during the 2003 ice storm.

Board Agenda Item

APRIL

A joint planning study between EKPC and FMEC has confirmed the need and justification for a new 69-12.5 kV, 11.2/14 MVA distribution substation ("Oak Ridge") and 0.19 mile, 69 kV transmission tap line from EKPC's Goddard – Charters 69 kV line. The new Oak Ridge Substation will improve distribution reliability by shortening existing 12.5 kV circuits and providing back feeds to Charters and Flemingsburg Substations.

This project is the least cost alternative with a twenty-year present worth cost savings of approximately $51,000 when compared with the next best alternative. The total estimated project cost is $626,000 with a target in service date of May 2006.

Recommendation

Management recommends that the EKPC Board approves an Amendment of the current EKPC RUS approved Three-Year Work Plan (November 2002-October 2005) dated October 2002, to include those projects identified above at an estimated total costs of $5,196,000 and to approve construction of these projects along with authorization to acquire necessary permits, approvals, real property and associated easements necessary and desirable to implement these projects.

RUS requires approval of the Board for amendment of the current EKPC RUS-approved Three-Year Work Plan. Construction of the added projects requires review by the Power Delivery Committee and approval pursuant to Board Policies No. 103 and 106.

GM

EAST KENTUCKY POWER COOPERATIVE, INC.
MINUTES OF BOARD MEETING
MARCH 9, 2004

A regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. ("EKPC") was held at the Headquarters Building, 4775 Lexington Road, Winchester, Kentucky, on Tuesday, March 9, 2004, at 11:00 a.m. EST pursuant to proper notice.

Chairman Delno Tolliver called the meeting to order. Donnie Crum gave the invocation. The minutes were kept under the supervision of Secretary Sam Penn. The secretary took the roll call with the following directors present:

Mike Adams	Licking Valley
Allen Anderson, Alternate	South Kentucky
Fred Brown	Jackson
Overt Carroll, Alternate	Clark Energy
Donnie Crum	Grayson
P. D. Depp	Taylor County
Danny Divine	Inter-County
E. A. Gilbert	Blue Grass
Jimmy Longmire	Salt River
C. F. Martin	Farmers
Wade May	Big Sandy
Mickey Miller, Alternate	Nolin
Sam Penn	Owen
Wayne Stratton	Shelby
Delno Tolliver	Cumberland Valley
Lonnie Vice	Fleming-Mason

Also present were Mike Norman, RUS representative, and visitors Hope Kinman and John Grant, Owen Electric Directors.

BOARD MINUTES

On motion of Danny Divine, seconded by P. D. Depp, the minutes of the February 10, 2004, regular board meeting and the February 25, 2004, Special board meeting were approved.

[redacted]

[redacted]

[redacted]

Board Policy No. 305—Allocation Procedures for Non-EKPC-Sourced Power Acquisitions Under Wholesale Power Contract Amendment No. 3

After review of the applicable information, a motion was made by Fred Brown, seconded by Allen Anderson, and, there being no further discussion, passed to approve the following:

Whereas, On October 14, 2003 the East Kentucky Power Cooperative, Inc. ("EKPC") Board of Directors ("Board") approved Amendment No. 3 to the Wholesale Power Contract ("WPC") between EKPC and its members;

Whereas, This amendment allowed each member cooperative to purchase power and energy from non-EKPC sources up to a maximum of 15% of the member system's 3-year rolling average peak load (the "15% Option"), provided that the total of all such non-EKPC acquisitions by all member systems does not exceed 5% of EKPC's 3-year rolling average peak load (the "5% Cap");

Whereas, The adoption of Board Policy No. 305, as attached, will provide a reasonable mechanism to alleviate the 5% Cap among the member systems so that those member systems with specific identifiable projects can avail themselves of the 15% Option and can proceed with those projects in a timely manner; and

Whereas, It is the recommendation of management and the Operations, Services & Support committee that Board Policy No. 305 be adopted; now, therefore, be it

Resolved, That EKPC Board Policy No. 305 be and hereby is adopted.

[redacted]

MARCH

Board Agenda Item

TO: EKPC Board of Directors

FROM: EKPC Audit Committee

DATE: February 27, 2004

SUBJECT: Report on Risk Analyses of EKPC Facilities Costs of Warren RECC Membership (Executive Summary)

KEY MEASURE(S) Competitive Energy and Reliable Energy

Background

The East Kentucky Power Cooperative, Inc. ("EKPC") Audit Committee has been assigned the responsibility of evaluating various risks to which EKPC might be exposed. EKPC staff and management have developed various assumptions in developing the cost to serve Warren Rural Electric Cooperative Corporation ("Warren RECC") as a member effective April 1, 2008, and the Audit Committee has evaluated those assumptions and selected certain base case assumptions which it reasonably believes should adequately protect EKPC from risks relating to costs of new facilities to serve Warren RECC. Those base assumptions deemed by the Audit Committee to be most accurate and reasonable, which have been designated as the "$1600/kW Remix 2" case, are as follows:

Fluidized Bed Coal Unit (268 MW)

Capital Cost	$1600/kW
Generation-Related Transmission	$60/kW
Base Fuel Cost	$1.13/MMBtu (10 year average cost)
VO&M	$2.42/Mwh
FO&M	$20.00/kW-yr.
Heat Rate	9,871 Btu/kWh

Simple Cycle Combustion Turbine

Capital Cost	$423/kW
Generation-Related Transmission	$60/kW
Base Fuel Cost	$4.86/MMBtu
VO&M	$5.31/Mwh
FO&M	$3.40/kW-yr.
Heat Rate	11,741 Btu/kWh

MARCH

Board Agenda Item

Additionally, the risk for the cost of transmission facilities to deliver power from the EKPC system to the Warren RECC system would be born entirely by Warren RECC. For analyses purposes, this was assumed to be $29,200,000.00. Warren RECC was also to receive a transmission credit for their transmission facilities with an estimated net present value of $11,147,000.00 to be finally calculated on or before April 1, 2008, based upon their actual investment at that time. Interest rates were to be 6.5 percent.

In addition, the Audit Committee also reviewed critiques of the assumptions performed by CFC and Burns and McDonnell which concluded that in general the assumptions and analyses EKPC staff developed were reasonable.

Justification and Strategic Analysis

For several years, EKPC has had a corporate objective to grow its business. By being larger, EKPC's members gain direct and indirect benefits such as economies of scale, improved load factor, improved load diversity, greater presence in the state legislature, and broader based membership.

It is understood that EKPC must incur certain risk as a result of its business. It is, however, prudent to evaluate and measure those risks so that the EKPC Board of Directors (the "Board") is aware of both the risks and the magnitude. Risk may be assumed by EKPC, assigned to others, or insured against as appropriate. This responsibility has been assigned to the Audit Committee.

This recommendation supports competitive energy and reliable energy.

Recommendation

The Audit Committee has reviewed several analyses performed by EKPC staff and has requested and reviewed numerous sensitivities to the staff-developed analyses. The Audit Committee reports that the base assumptions of the $1600/kW Remix 2 case, as listed in the Background Section, reasonably limit the Capital and Operating Cost risk to EKPC of new generation and transmission facilities needed to serve the Warren RECC load, and are appropriate to use in developing a proposal to present to Warren RECC for their consideration. The Audit Committee recommends that the Board accept its report in this regard and rely upon it in the consideration of an appropriate proposal to Warren RECC for membership in EKPC.

dge/dd

MARCH

Board Agenda Item

TO: Operations, Services & Support Committee & Board of Directors

FROM: Roy M. Palk *Roy M. Palk*

DATE: February 27, 2004

SUBJECT: Warren RECC Membership Proposal (Executive Summary)

KEY MEASURE(S) Competitive Energy and Reliable Energy

Background

Warren Rural Electric Cooperative Corporation ("Warren RECC") of Bowling Green, Kentucky, currently purchases all of its power and energy from the Tennessee Valley Authority (TVA). Warren RECC has served notice to TVA that it intends to cancel its purchase agreement with TVA effective April 1, 2008.

East Kentucky Power Cooperative ("EKPC") submitted a proposal to Warren RECC dated May 30, 2003, offering to provide all of Warren RECC's power and energy requirements for the period commencing April 1, 2008. Warren RECC would be a full member of EKPC with all the rights and obligations, the same as the then-existing EKPC members.

Warren RECC initially rejected EKPC's May 30, 2003, offer but has continued to negotiate with EKPC regarding long-term power supply and membership in EKPC. As a result of subsequent analyses and negotiations with EKPC, Warren RECC has determined that it is in its best interests to become a member of EKPC effective April 1, 2008, and has asked EKPC to finalize negotiations regarding agreements required to consummate such an arrangement.

EKPC staff has developed estimated costs of serving Warren RECC's approximately 400 MW load beginning April 1, 2008. Staff has also prepared a financial forecast for service to EKPC's existing 16 members for the same time period. EKPC proposes to serve Warren RECC based on rates that do not impact the current members. Such rates will initially be greater than those estimated for the current members since the cost of service to Warren RECC will be greater than the cost of service for the current members for the first fourteen years or so. Therefore, EKPC proposes to charge Warren RECC the same rates as for the current members PLUS an annual adder to account for the increased cost of service to Warren RECC for the first fourteen years.

MARCH

Board Agenda Item

It is proposed that Warren RECC can pay the adder each year or make an initial lump sum payment (currently estimated to be approximately $106,000,000).

The cost basis for the facilities needed to provide service to Warren RECC, designated as the $1600/kW Remix 2" case, has been reviewed by the EKPC Board of Directors' ("Board") Audit Committee. Their report states that estimates used by Staff to compute the cost of facilities needed to provide service to Warren RECC are reasonable and represent an acceptable level of risk to the current EKPC members.

The Warren RECC membership proposal will be structured such that the adder for generation is based on 1) the cost estimates as reviewed and approved by the Audit Committee (see Audit Committee report presented at the Board's March 9, 2004, meeting) and 2) the Warren RECC 2008 peak load that will be estimated on March 1, 2008, (i.e., the adder for the generation component will be proportional to the actual load expected in 2008 based on a March 1, 2008, calculation vs. an estimate made in 2004).

The adder for any high voltage transmission facilities required to serve Warren RECC will be calculated when it becomes clear what facilities will be required to serve Warren RECC from the EKPC system. Any change in cost of transmission facilities will be bourne by Warren RECC.

Warren RECC currently owns approximately 200 miles of 69 kV lines and several 161 kV transmission substations. Warren RECC wishes to retain ownership of these facilities and of all new facilities required to serve Warren RECC load growth. EKPC proposes to pay Warren RECC its cost of ownership for these existing and new facilities since EKPC currently furnishes such facilities to its current members at its cost. Since this results in increased cost of service to Warren RECC, it increases the adder that Warren RECC will pay. The net result to Warren RECC is a pass-through of costs such that there is no impact on EKPC's current members. Any upgrades or additions to existing 161 kV or 69 kV facilities or any such new facilities must be approved by EKPC, beginning with acceptance of EKPC's offer to make Warren RECC a member (this should be on or about July 1, 2004).

Warren RECC currently owns 35 distribution substations and wishes to retain ownership of these facilities as well as any new ones constructed to serve future load growth. Accordingly, EKPC will not collect from Warren RECC the substation charge portion of the wholesale rates which is charged to existing EKPC member systems. EKPC does intend to meter Warren RECC loads at distribution voltage and will purchase Warren RECC's existing metering. EKPC will charge Warren RECC a metering charge as part of its wholesale rates.

Any offer that EKPC makes will require Warren RECC to enter a Membership Agreement and to enter a Wholesale Power Contract, and will be contingent upon Board approval and necessary approvals of the Kentucky Public Service Commission, the Rural Utilities Service, and the National Rural Utilities Cooperative Finance Corporation.

MARCH

Board Agenda Item

Justification and Strategic Analysis

For several years EKPC has had a corporate objective to grow its business. By being larger, EKPC's members gain direct and indirect benefits such as economies of scale, improved load factor, improved load diversity, greater presence in the state legislature, and broader based membership. This opportunity helps EKPC meet that objective.

This recommendation supports competitive energy and reliable energy.

Recommendation

Management recommends that the EKPC Board authorize management to offer membership in EKPC to Warren RECC based upon the facilities cost assumptions recommended by the Audit Committee and to negotiate and develop any agreements necessary to finalize the terms of Warren RECC membership consistent with those facilities cost assumptions and the best interest of EKPC. It further authorizes management to seek any regulatory and/or lender approvals needed to allow Warren RECC to become a member of EKPC, if they accept the proposal.

dge/dd

EAST KENTUCKY POWER COOPERATIVE

Policy No. 305 March 9, 2004

ALLOCATION PROCEDURES FOR NON-EKPC-SOURCED POWER ACQUISTIONS UNDER WHOLESALE POWER CONTRACT AMENDMENT NUMBER 3

I. BACKGROUND

Amendment Number 3 to the Wholesale Power Contract between East Kentucky Power Cooperative ("EKPC") and its member systems allows each member system executing the Amendment to purchase or otherwise acquire power and energy from non-EKPC sources up to a maximum of 15% of the member system's 3-year rolling average peak load (the "15% Option"), provided that the total of all such non-EKPC acquisitions by all member systems does not exceed 5% of EKPC's 3-year rolling average peak load (the "5% Cap").

II. OBJECTIVE

The objective of this Board Policy is to provide a reasonable mechanism to allocate the 5% Cap among the member systems so that those member systems with specific, identifiable projects that would be facilitated by the use of the 15% Option can proceed in a timely manner.

III. CONTENT

A. An Allocation Pool is hereby created which will be made up of the combined total of the unused portions of each member system's load ratio share of the 5% Cap, as hereinafter set out.

B. An Allocation Committee is hereby created as hereinafter set out which will administer the allocation of the unused portions of the member systems' load ratio share of the 5% Cap in the Allocation Pool to requesting eligible member systems.

C. (1) As soon as is reasonably possible, but no later than 90 days after either the adoption of this Board Policy or the execution of Amendment Number 3 of the Wholesale Power Contract, whichever is later, each member system shall submit to the Allocation Committee a detailed, written plan of its intended use of its 15% Option (the "Plan"). Each Plan shall include the following:

a) Whether or not the member system intends to use all or any portion of its load ratio share of the 5% Cap within 6 months of the date of submittal of the Plan;

b) How much of its load ratio share of the 5% Cap the member system intends to use;

c) A detailed description of the specific use to which it will be put;

d) The anticipated time frame within which the use will occur;

e) Any contracts or other agreements executed with respect to such use, and if none, the status of negotiations for such contracts or agreements and the anticipated date of execution thereof; and

f) Any other information that may be requested by the Allocation Committee.

(2) A member system may immediately proceed to utilize that portion of its load ratio share of the 5% cap identified in its Plan.

(3) If a member system's Plan reveals that the member system does not intend to use any or all of its load ratio share of the 5% Cap, then the unused portion will be place in the Allocation Pool.

(4) If, within 6 months from the submittal of its Plan, a member system does not use the portion of its load ratio share of the 5% Cap as stated in the Plan, or, if reasonable progress, in the determination of the Allocation Committee, has not been made by the member system toward such use, then that portion of the 5% Cap will be placed in the Allocation Pool.

(5) The Allocation Committee may require periodic progress reports with respect to such use at intervals of the Committee's determination.

D. (1) At any time after submittal of its Plan, a member system who desires an initial allocation or an allocation of more than its load ratio share of the 5% Cap, shall submit a written request to the Allocation Committee, which request shall contain the same type of information as required by Paragraphs III(C)(1)(a-f) hereof.

(2) The Committee shall determine whether to grant such a request by majority vote.

(3) If, within 6 months from the granting of any such request by the Committee, a member system has not used the allocation, or if reasonable progress, in the determination of the Committee, has not been made toward such use, then the allocation shall be returned to the Allocation Pool.

E. Any new member of EKPC admitted by the EKPC Board of Directors ("Board") shall have the same rights as existing members with respect to the 15% Option and 5% Cap upon execution by the new member of the Wholesale Power Contract including Amendment Number 3. The new member shall submit a Plan within 90 days of its execution of the Wholesale Power Contract.

F. The use of 15% Option shall be limited to the following:

1) Service of new load acquired by a member system and which was not part of the member's traditionally recognized service territory as certified by the Kentucky Public Service Commission pursuant to KRS 278.017.

2) Distributed Generation projects owned by a member system.

3) Other uses as established by the Board.

G. A member may exceed the 15% Option only upon approval of the Board and RUS. Any request by a member system to so exceed its 15% Option shall be made in writing to the Allocation Committee and shall include all relevant information and justifications for such request. The Committee shall have the authority to request any additional information or documentation it feels is necessary or advisable. The Committee shall review and consider the request and make a recommendation to the full Board for action.

H. Any determination or decision of the Allocation Committee may be reviewed by the Board at the request and upon the motion of any director and the Board may affirm, overturn or modify such determination or decision in its discretion.

IV. ORGANIZATIONAL RELATIONSHIPS

A. The Allocation Committee shall report directly to the Board.

B. The Allocation Committee shall have 5 members, 3 of which shall be managers, presidents or CEO's of member systems, 1 of which shall be a regular director of the Board, and 1 of which shall be an employee or other representative of EKPC. The members shall be appointed by the Chairman of the Board with the advice and consent of the other officers of the Board and in consultation with the President and CEO in accordance with Board Policy 105 and shall serve at the pleasure of the Board.

C. The Committee is a continuing one, except for the EKPC representative, and the term of each member shall run for one year, coincident with the term of the Chairman of the Board, or until his successor is appointed. Appointments of committee members shall be staggered so that no more than two members leave the Committee each year. No member shall serve more than 4 consecutive years except that the term of the EKPC representative shall be indefinite.

D. The Committee shall annually elect a Chairman, Vice-Chairman and Secretary. Minutes of each meeting shall be kept. The Chairmen of other Board Committees or any Board officer shall not be Chairman of the Allocation Committee.

E. Meetings of the Committee shall be held at the call of the Committee Chairman, the Chairman of the Board, or at the call of three members of the Committee when there are items or other issues for consideration by the Committee. The time, location and agenda of the meeting shall be set in the notice.

MARCH

Board Agenda Item

TO: Fuel and Power Supply Committee and Board of Directors

FROM: Roy M. Palk *Roy M. Palk*

DATE: February 27, 2004

SUBJECT: Approval of Amendment to Keystone Industries, LLC, Coal Supply Contract Dated October 16, 2001—Spurlock Power Station (Executive Summary)

KEY MEASURE(S) This Supports Reliable and Competitive Energy Costs

Background

East Kentucky Power Cooperative, Inc., ("EKPC") has a coal supply contract with Keystone Industries, LLC, ("Keystone") that was originally supposed to expire on December 31, 2003. This contract was extended through March 31, 2004, in order for Keystone to complete the required tonnage. (Keystone was 4,500 tons behind at the end of the original contract date.) EKPC fuel personnel have been in negotiations with Keystone for an extension to this contract over the past few months. Keystone has proposed a three-year and nine-month extension beginning in April 2004 and continuing through December 31, 2007, with a price reopener in April 2006.

EKPC received term proposals for Spurlock Power Station Unit No. 2 coal with its second quarter 2004 solicitations. Fuel personnel have also contracted other potential compliance coal suppliers for availability and pricing. Keystone has the most competitive proposal for EKPC for Spurlock Power Station Unit No. 2. Fuel evaluations are attached.

The negotiated contract extension will begin at 9,000 tons per month on April 1, 2004, and continue through December 31, 2004. The tonnage will then increase to 20,000 tons per month and continue through the life of the contract. The delivered price shall be \$1.735/MMBtu or \$41.64 per ton. This can be coal or synfuel. Quality will be 12,000 Btu/lb., 14 percent ash, and 1.15 lbs. SO_2/MMBtu. The coal or synfuel will be loaded at Quincy Dock on the Kanawha River.

Justification and Strategic Analysis

This contract will allow EKPC to continue to keep a dependable supply of coal at EKPC's Spurlock Power Station Unit No. 2 and will enable EKPC to continue to generate power

MARCH

Board Agenda Item

for the lowest cost possible for its Member Systems. This recommendation supports EKPC's key measures for reliable and competitive energy costs.

Recommendation

Management recommends that the Board of Directors approve the following coal supply contract amendment.

Keystone—81,000 tons per year at a rate of 9,000 tons per month beginning April 1, 2004, and continuing through December 31, 2004; 240,000 tons per year at a rate of 20,000 tons per month beginning January 1, 2005, and continuing through the life of the contract. The f.o.b. barge price shall be $1.604/MMBtu at the Quincy Dock on the Ohio River. This price shall escalate at a rate of 1.25 percent every six months beginning October 1, 2004.

eh/gv
Attachment

FUEL EVALUATION FOR SPURLOCK POWER STATION UNIT NO. 2

KEYSTONE INDUSTRIES CONTRACT AMENDMENT

DATE: 2/19/2004

	COAL SUPLIER	QUALITY BTU %SULFER %ASH	TONS	TERM MONTHS	ASH DISP. +BOILER MAIN $/TON	SO2 COST $/TON	COST $/TON	FREIGHT COST $/TON	DELIVERY COST $/TON	DELIVERY COST $/MMBtu	EVAL COST $/TON	EVAL COST $/MMBtu
(R)	KEYSTONE-SYN	12000	17800	45	2.214	3.891	38.500	3.130	41.630	1.735	47.735	1.989
	KANAWHA WV	0.71										
	MONTHLY/NON-UNION/PRODUCER	14.00										
	RESOURCE FUELS	12200	40000	60	2.100	3.836	41.480	6.270	47.750	1.957	53.686	2.200
	CABELL WV	0.70										
	MONTHLY/NON-UNION/PRODUCER	13.50										
	PEABODY COALSALES	12500	10000	15	2.049	4.055	43.750	6.250	50.000	2.000	56.323	2.253
	KANAWHA WV	0.74										
	WEEKLY/NON-UNION/BROKER	13.50										
	ARCH COAL SALES	11800	20000	22	2.251	3.836	42.250	5.980	48.230	2.044	54.317	2.302
	LOGAN WV	0.70										
	MONTHLY/UNION/PRODUCER	14.00										
	TWIN ENERGIES	12000	12500	9	2.293	3.946	50.000	1.418	51.418	2.142	57.907	2.413
	PIKE KY	0.72										
	WEEKLY/NON-UNION/PRODUCER	14.50										
	CENTRAL APPALACHIAN	NO COAL AVAILABLE										
	VARIOUS KY											
	CONSOL INC	NO COAL AVAILABLE										
	VARIOUS KY/WV											
	MASSEY COAL	NO COAL AVAILABLE										
	VARIOUS/WV											

(R)=Recommended

Jackson Energy Request

Tony Campbell
10/5/10

Background

- Jackson Energy Cooperative (JEC) has presented EKPC with a formal request to exercise their rights under amendment #3 of the Wholesale Power Supply Agreement.

- JEC's request:
  - Off system purchase
  - 40 MW
  - 7X24
  - ~15% of their total load
  - 5 to 10 year deal

At Issue

- Contract Amendment #3 and a portion of Policy #305 are inconsistent
  - Staff believes where directly inconsistent, the amendment takes precedence
  - Policies #304 & #305 need to be updated
  - The amendment was written and supplied by RUS
  - Policy #305 was approved after the amendment

At Issue Continued

- JEC/EKPC Staff's interpretation of Contract amendment #3 differs:
  - JEC feels the word "load or loads" in the contract means their load in totality (using this hypothesis then this would be a one time opportunity for JEC)
  - EKPC staff feels that having the plural word "loads" along with load ("load or loads") should be interpreted as an individual load, or multiple specific loads, (i.e. this would require load following). EKPC staff canvassed multiple G&T's with various types of partial requirements provisions.

At Issue Continued

- The amendment is not clear regarding the 90 day and 18 month notice of load leaving and returning.
  - On Dec. 9, 2009 JEC met with Jim L. & Tony C. At that meeting it was stated that JEC was considering a PPA with a Municipal to serve 15% of their peak load.
  - JEC feels this constituted notice and should be considered the beginning of 18 month waiting period
  - EKPC staff feels notice should be in writing and give a firm date of load departure

At Issue Continued

- Due to the contract's ambiguity, EKPC staff feels we should make the verbal notification a one time exception
- EKPC staff feels this should not be precedence setting
- EKPC staff believe, per the amendment, if notice is given then that load, or loads will not be served by EKPC after the 18 months
- Per the amendment should the members load, or loads want to return there would be an 18 months waiting period

At Issue Continued

- Policy #305 states:
  - If members have not notified and utilized their 5% portion of the allocation within 6 months of the policies approval, that amount goes into an allocation pool
  - At that point the Allocation Committee manages the pool and decides if a member may utilize more than their originally allocated 5%
  - Should the member request more than their 5%, that member would, in writing, be required to request additional allocation from the Allocation Committee

At Issue Continued

- The allocation committee shall determine whether to grant such a request by majority vote
- JEC feels the amendment does not address the allocation committee. Consequently, the allocation should be on a first come first serve basis
- EKPC Staff agree the policy was adopted after the amendment. However, it was adopted to protect from having a few members taking all of the allocation. In addition, we believe the policy was adopted unanimously by all members

RUS

- RUS will be required to approve any future interpretation of all amendments
- EKPC staff has requested RUS's position on the amendment interpretation
- We have yet to receive RUS's response

Moving Forward EKPC Board

- Staff recommendation:
  - Wait for RUS's response on the amendment interpretation
  - If RUS concurs with EKPC's interpretation, JEC will need to designate a load or loads
  - If RUS agrees with JEC's interpretation then the EKPC board will need to make two decisions:
    - Does the board agree with JEC's interpretation?
    - Does the board agree with staff that the allocation committee language in P#305 is consistent with the amendment?

Allocation Committee

- Members:
  - Carol Ann Fraley
  - Hope Kinman
  - Paul Embs
  - Jim Jacobus
  - Staff person named by Tony Campbell