Michelle Carpenter

From:	Tony Campbell
Sent:	Monday, August 15, 2011 4:21 PM
To:	Michelle Carpenter
Subject:	FW: Amendment #5 First Data Request
Attachments:	Linxwiler First Data Request to EKPC 2011-08-08.doc
Follow Up Flag:	Follow up
Flag Status:	Flagged
Categories:	Red Category

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: Wednesday, August 10, 2011 4:27 PM
To: Don Mosier; David Smart; Tony Campbell; Denver York; Sherman Goodpaster; Mike McNalley
Subject: FW: Amendment #5 First Data Request

I received this data request from Owen, Salt River and Jackson. I don't see much nexus between the requested information and Amendment No. 5. I would like to circle up and discuss how to respond to this request.

From: Mark Stallons [mailto:mstallons@owenelectric.com]
Sent: Wednesday, August 10, 2011 4:21 PM
To: David Crews
Cc: Don Schaefer; Larry Hicks; Carol Wright
Subject: Amendment #5 First Data Request

David:

As we discussed Monday, attached please find our consultants first data request. Should you have any questions please call me at either number listed below.

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

Consultant's First Data Request
to
East Kentucky Power Cooperative
Regarding
Proposed Amendment No. 5

non-Privileged.

From
Linxwiler Consulting Services, Inc.
On Behalf of
Owen Electric Cooperative
Jackson Energy Cooperative
Salt River Electric

(August 8, 2011)

The following information is requested to be provided in "hardcopy" and computer-readable forms.[1]

1-1. Please provide a copy of the most recently prepared long-range load forecast or power requirements study for East Kentucky Power Cooperative ("EKPC") covering at least the next 15 years. C

1-2. Please provide copies of the most recently prepared long-range load forecasts or power requirements studies for each of EKPC's member cooperatives. C

1-3. Please provide tabulations of the monthly aggregate peak demands and energy requirements of each of EKPC's members for 2006-2010, as measured at the members' delivery points.[2] non-coincident

? 1-4. Please provide a tabulation of the aggregate monthly peak demands and total energy requirements of EKPC during 2006-2010, as measured at the inputs to EKPC's transmission system.

1-5. Please provide a tabulation of the aggregate demands of each of EKPC's members at the time of (i.e., coincident with) EKPC's peak demands for 2006-2010, as measured at the members' delivery points. coincident

1-6. Please provide a tabulation of monthly energy sales to non-members for the period 2006-2010.

1-7. Please provide a list and general description of all long-term off-system sales (i.e., sales to non-members) that are currently ongoing or expected during the years 2010-2025.[3] 1 yr

[1] It is further requested that tabulations be provided in editable computer formats (e.g., Microsoft Excel) rather than in image or picture format.
[2] The peak demands requested here are each member cooperative's maximum integrated 30-minute or 60-minute demands occurring each month; i.e., non-coincident peak demands.

1-8. Please provide a copy of EKPC's annual reports for 2009 and 2010.

1-9. If not included in the annual reports requested in Item 1-8 above, please provide copies of EKPC's audited, year-end financial statements for 2009 and 2010.

1-10. Please provide copies of EKPC's external auditors' reports or memoranda to EKPC's management for the years 2009 and 2010. C

1-11. Please provide copies of EKPC's most recent long-range financial forecast, including all detailed supporting schedules. C

1-12. Please provide a copy of all currently effective and proposed or pending tariffs and/or rate schedules of EKPC, and their associated terms and conditions.

1-13. Please provide copy of all studies that purport to derive or justify all of EKPC's current, pending, and proposed rates. ↳ cost of service?

1-14. Please provide a copy of EKPC's budget report (including budgeted costs at the FERC account level) for 2011 and, when available, for 2012. C

1-15. Please provide a tabulation of the following information regarding all of EKPC's generating units:

(a) station name and unit number or designation;

(b) the date placed into service;

(c) the currently planned retirement date (if any); C

(d) the gross original cost of the unit and its net, depreciated value, both as of January 1, 2011;

(e) maximum net dependable capability, in MW, for summer and winter (as used for planning purposes);

(f) fuel types and the normally expected heat content and SO_2 content of each; Why?

(g) the full-load, net heat rate on each type of fuel; Why?

(h) the monthly amount of each type of fuel burned during 2010 (in appropriate units);

(i) total monthly net generation, in MWH, during 2010 and, if available, the amount of such generation from each fuel type; and

---

[3] As used herein, a "long-term" sale means a sale having a term of at least a year.

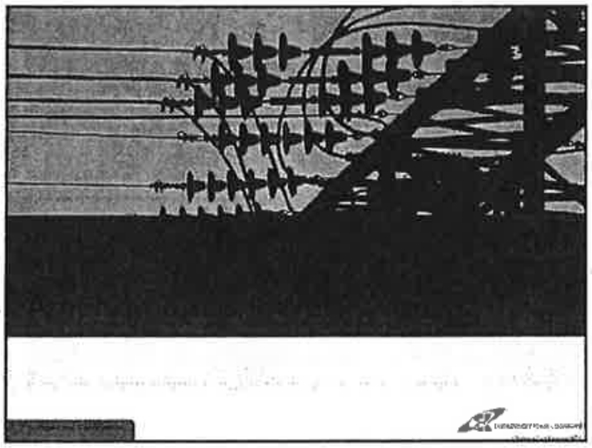
(j) the total non-fuel operations and maintenance expenses during 2009 and 2010. Why?

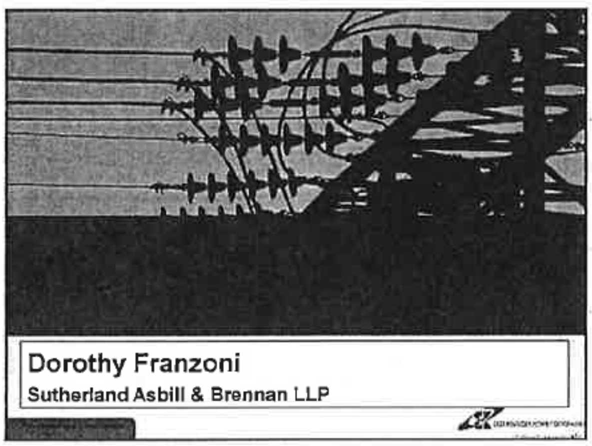
1-16. Please provide a list of the currently effective depreciation rates for each of EKPC's generating units, as well as all proposed or pending such depreciation rates.

1-17. Please provide copies of all studies prepared to determine or support EKPC's current, pending, and proposed depreciation rates.

1-18. Please provide copies of EKPC's two (2) most recently prepared long-range generation expansion studies, with all supporting assumptions and associated detailed *pro forma* cost projections. C

1-19. Please identify the "production costing" computer model(s), if any, used by, or for, EKPC, in connection with budgeting, financial forecasting, generation planning, or rates. Also, please identify the vendor or provider of each such model.





Amendment No. 3

- Member may elect non-EKPC supply for up to 15% of its load, subject to an aggregate cap for all Members of 5% of EKPC's load.
- 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.
- 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 shall supply, and Member shall pay, for interconnection, transmission and ancillary services for non-EKPC supply.
- Member solely responsible for all additional costs.

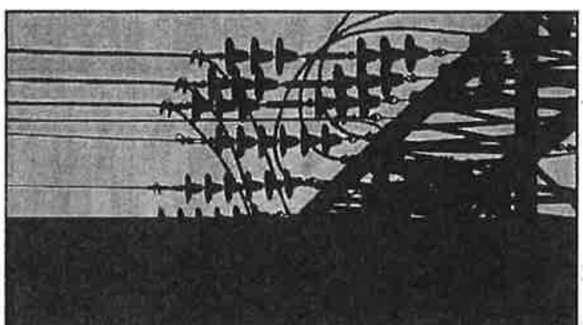
Limitations of Amendment No. 3

- Allows non-EKPC supply only for a specific load.
  - Non-EKPC supply for a percentage of a Member's total load is not permitted.
- Non-EKPC supply must 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 Member(s) by the time a Member has its first opportunity to exercise its non-EKPC supply option.
- Requires only 90 days notice for non-EKPC supply < 5 MW, and 18 months notice for non-EKPC supply > 5 MW.

3



Don Mosier

Proposed Amendment 5

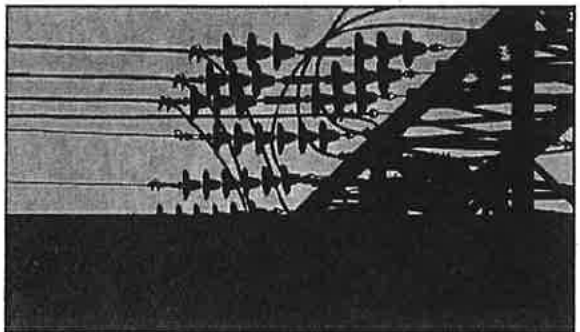
- Underlying principal is fairness for all Members.
- Adds flexibility in types of non-EKPC supply a Member can elect.
  - Specific load or loads; or % of existing load.
  - New generation including DG, or bilateral off-take agreements.
  - Renewable resources such as stranded gas, solar, wind, biomass.
  - Load following and/or block purchases.
  - Member requests for EKPC to source market supplies.
- Gives each Member control over whether its 5% can be used by another Member, subject to aggregate cap of 5% of EKPC's previous rolling 3-year peak.
- Expressly provides that electing Member will be responsible for costs incurred, so that non-EKPC supply obtained by one Member does not shift costs to other Members.

Proposed Amendment 5

- Exclusions from responsibility for stranded costs include:
  - New generation based on renewable resources.
  - Distributed Generation < 2.5 MW that "peak shaves" EKPC's Coincident Peak.
  - Member Acquisition of "New Load".
    - 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 (≥ 2,500 kW) retail load at a facility previously served by the Member after at least 12 months have elapsed since previous service was 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.
- Grandfathering of existing non-EKPC supply resources.
  - To be specifically identified in Schedule to Amendment 5.
  - Counts toward Member's 5% limit and 5% aggregate cap as noted earlier.

Proposed Amendment 5

- Amendment 5 to establish common understanding on guiding principles.
- EKPC will develop appropriate policies/procedures with your input to implement Amendment 5 which will change over time, depending on a number of factors, such as:
  - Cost determination methodology elected.
  - Present and future EKPC rate structures.
  - DSM and Economic Development strategies.
  - Whether EKPC joins an RTO, and changes in RTO requirements.
  - Evolving NERC reliability standards and compliance requirements.



David Crews / Isaac Scott / Denver York / Sherman Goodpaster

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 (i.e. EKPC's financial integrity).

Rate Impact Example

Demand rate recovery

Utility Q currently has a 2,000 MW demand. If load is reduced by 50 MW, the demand rate impact is:

	Before Reduction	After Reduction
Demand Revenue Requirement	$95,500,000	$95,500,000
Annual Billing Determinates. (kW)	19,100,000	18,500,000
Demand Rate ($/kW Month)	$5.00	$5.162

Carl Wright wants back-up

Effect on Resource Planning

- Modeled what removing 50 MW of load in 2012 would do to resource plan - most cost effective option from Smith investigation.
- Reduction did not change expected date for 5-year block of capacity beginning in 2017, addition of combined cycle turbines in 2021 and 2022, purchased capacity in 2024, or peaking combustion turbines in 2027 and 2028.
- Reduction did eliminate a seasonal purchase in 2012 and the need for a capacity option in 2014; however, it moved up a seasonal purchase from 2016 to 2015 and added an additional season purchase in 2016.
- Under this resource plan, removing 50 MW changes only the timing of some purchases, but not investments in facilities.

Options to address Underfunding

- Options:
  1. Direct Assignment.
  2. Socialization.

Rate Impact of Socialization.

Percentage Increase over Current Demand Rates		
	E1	E2
Load Reduction of 600,000 kW	2.003%	1.827%
Load Reduction of 1,200,000 kW	4.255%	3.821%
Load Reduction of 1,800,000 kW	6.508%	5.980%

- Increase in demand rates would apply to all Members including those reducing load.
- Energy rates would also be impacted, as some fixed costs are recovered through energy rates. That impact has not been determined. Any change in revenues generated by base rates would also impact the calculation of the environmental surcharge.

Socialization

- Rate impact determined by using the billing analysis from EKPC's last base rate case and assumes the load being removed is from Schedule E1 and E2.
- The demand revenues for E1 and E2 were adjusted to reflect an offset from potential transmission revenues.
- The rate impacts for removed monthly loads of 50 MW, 100 MW, and 150 MW were modeled; rate impact determined on an annual basis.
- Removed load allocated proportionally between E1 and E2.

Direct Assignment

- As of February 2011, the net book value of Steam Generation and Other Production assets was $1.628 billion.
- The three-year average (2008-2010) of EKPC coincident peaks excluding Gallatin Steel is 2,980 MW.
- A 50 MW reduction of load would produce a "Share of Load" ratio of 1.68% and a direct assignment of $27.3 million.
- Stated another way, the direct assignment associated with 1 MW would be approximately $546,500.

Direct Assignment

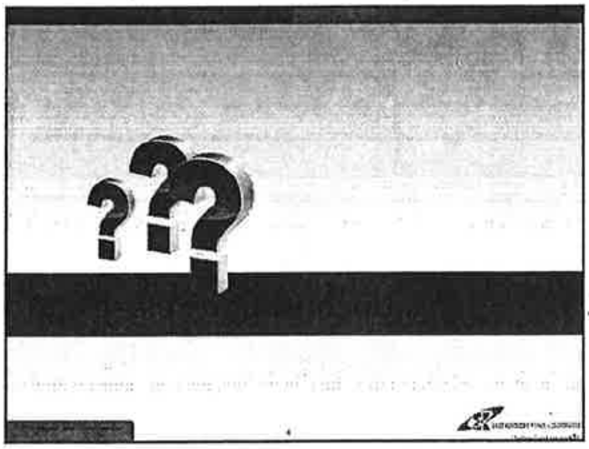
- Under the net book value method, the original cost of Steam Generation and Other Production assets less the corresponding accumulated depreciation is calculated.
- The percentage of the load being removed divided by the three-year average of EKPC's coincident peaks excluding Gallatin Steel, a "Share of Load" ratio, is applied to the current net book value to determine the stranded costs associated with the load being removed from the Wholesale Power Contract.

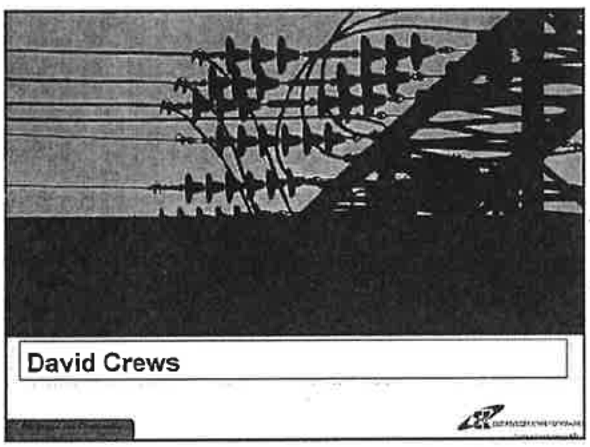
Direct Assignment

- Another option is to make an annual payment based on net book value depreciation and interest.
- Under this option, the annual assessment would be the depreciation and interest calculated for the current year and assigned based on the load ratio share as previously described.
- The benefit of this method would be that there is not a huge payment up front and if the load returns, we don't have to wrestle with how to credit the member.

Direct Assignment

- Another option is the lost revenues method.
- Under the lost revenues method, the lost revenues associated with the load being removed would be determined.
- The net present value of these revenues over a period of years would then be calculated.
- This "stream" of lost revenues would be offset by the avoided costs expected for the same period of years.
- The avoided costs would be determined using the production cost model.



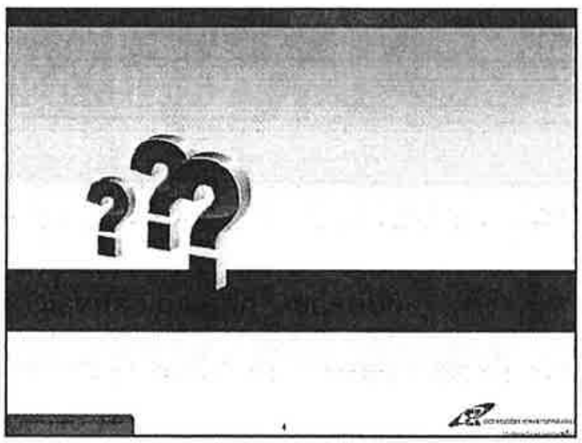


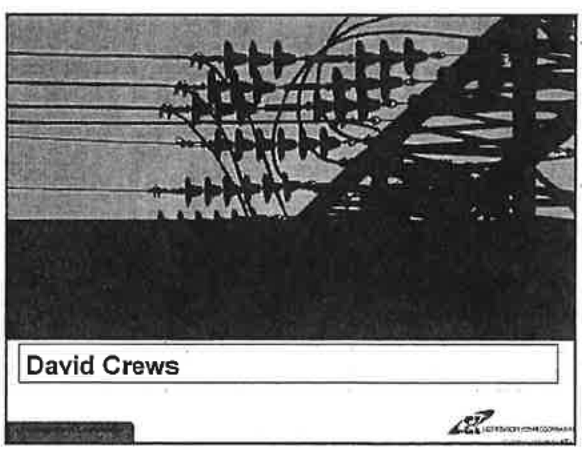
Distributed Generation

- DG (Peak Shaving)
  - Peak Shaving has value.
  - Propose that Peak Shaving be handled in the DSM program.
  - It can serve load on the system without having a negative impact on the customers.
  - Our DSM program needs to provide a price signal to generation assets at the Member and retail customer level to operate during peak hours.
  - The program should only provide an incentive or price signal in months when peak shaving benefits the system.

Renewable

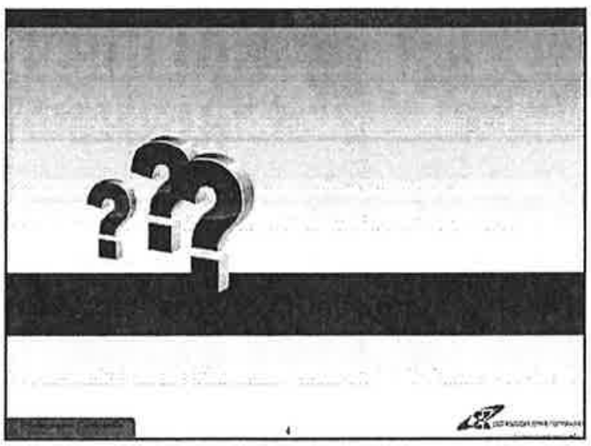
- Renewable Projects
  - EKPC is believes Renewable Projects should be exempted from stranded cost assignments
    - Renewable Projects need to be defined.

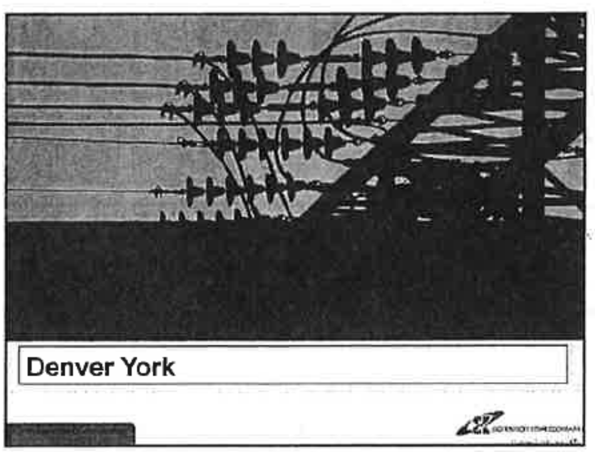




Bundled vs. Unbundled

- The Wholesale Power Contract provides bundled rates to Members.
  - Bundled rates include:
    1. Capacity and Energy.
    2. Reserves.
    3. Transmission Service.
    4. Transmission Ancillary Services.
    5. Transmission to Distribution transformation services.
    6. EKPC Overheads.
- Unbundled rates require that you purchase the following services independently.
  1. Capacity and Energy.
  2. Transmission Service.
  3. Transmission Ancillary Services.
  4. Interconnection of Generation.
  5. Management of Your Power Supply.





Transmission Service

- Any entity wishing to move wholesale power across the Bulk Electric System must be offered non-discriminatory rates and services by the transmission service provider.
- If a Member wishes to serve a portion of their load by a non-EKPC source, in accordance with the WPA, and the source for the capacity and energy is not located on the Member's distribution system with the load, EKPC will offer non-discriminatory rates and services to that Member.
- This offer cannot be declined unless the Member demonstrates it has acquired these services from another source.

OATT (www.oatioasis.com/ekpc)

- Schedule 1
  - Scheduling, System Control, and Dispatch Service.
  - Must take from EKPC.
  - $0.08856 per kW per Month.
- Schedule 2
  - Reactive Supply and Voltage Control.
  - Must take from EKPC.
  - $0.03978 per kW per Month.
- Schedule 3
  - Regulation and Frequency Response Service.
  - May choose alternative supply if available.
  - $0.12837 per kW per Month.

OATT (www.oatioasis.com/ekpc)

- Schedule 4
  - Energy Imbalance Service.
  - May choose alternative supply if available.
  - Cost based on incremental or decremental cost of the supplier's resource mix.
    - 100% of cost for deviations +/- 1.5% (minimum of 2 MW).
    - 110% of cost for deviations between 1.5% and 7.5% (2 MW minimum up to 10 MW).
    - 125% of cost for deviations greater than 7.5% (10 MW).
- Schedule 5
  - Operating Reserve – Spinning Reserve Service.
  - May choose alternative supply if available.
  - $0.12837 per kW per Month.

OATT (www.oatioasis.com/ekpc)

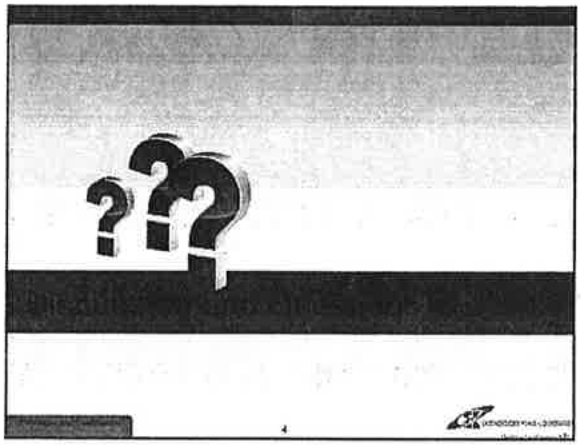
- Schedule 6
  - Operating Reserve – Supplemental Reserve Service.
  - May choose alternative supply if available.
  - $0.25673 per kW per Month.
- Schedule 7
  - Long-Term Firm Point-To-Point Transmission Service.
  - To serve load on EK, purchase NITS instead (Schedule 9).
  - May be required to purchase P2P on another system to get the power/energy to the EK border.
  - $1.94 per kW per Month (TVA).
  - $0.94 per kW per Month (KU/LGE).
- Schedule 9
  - Demand Charge for Network Integration Transmission Service.
  - Must purchase from EKPC.
  - $1.62 per kW per Month.

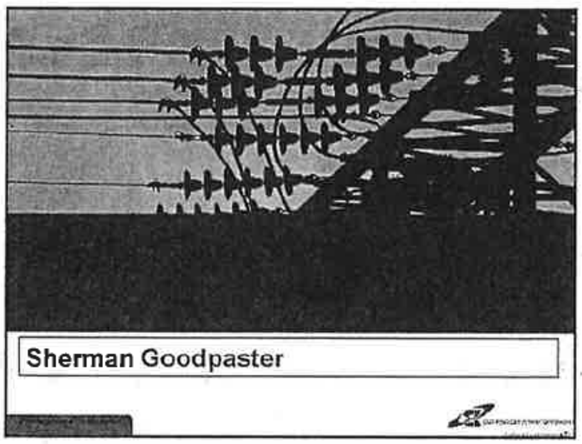
OATT (www.oatioasis.com/ekpc)

- Schedule 10
  - Generator Imbalance Service.
  - May choose alternative supply if available.
  - Customer pays Schedule 10 or Schedule 4, not both.
  - Same rate structure as Schedule 4.
    - Provision for intermittent resources.
- Schedule 11
  - Loss Compensation Service.
  - May choose to self-supply losses or purchase from EKPC.
  - If EKPC supplies,
    - Energy Charge = 2.5% * Energy * 110% of AVC.
    - Demand Charge = $8.56 per kW of Reserved Capacity per Month.
      - Reserved Capacity is that Capacity reserved for losses.
      - 4% of the maximum hourly energy.

Transmission & Ancillary Services

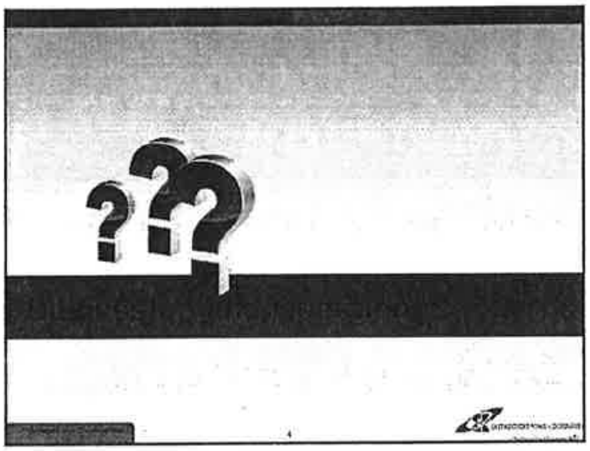
- Must be purchased to move power from the source to the load if using the Bulk Electric System.
- Would likely add $5 to $11 per MWh.
  - Depending on location of source.
  - Depending on load factor of the load.





PSC Approval and Requirements

- KRS 278.300 requires any utility subject to the jurisdiction of the PSC to get approval of the PSC to issue any evidences of indebtedness that have a term longer than two years.
- The PSC considers a contract for the purchase of power the same as an evidence of indebtedness and therefore requires approval for a Power Purchase Agreement ("PPA") with a term longer than two (2) years.
- This would more than likely require a showing that the PPA was the least cost option to the utility.



00BREAK00

EKPC - Finance and Planning Vice President-Delivery 9

2506

Board Action, Summary of

- Board - EKP & CB - 2003: - Summary of Board Meeting
  - EKP Board Minutes
  - CB Board Minutes
  - Executive Session Minutes
  - Board Resolutions - EKP & CB
  - Audit Committee Minutes and Audit Committee - General Back-up

EKPC
2003 Board Minutes

00BREAK00

EAST KENTUCKY POWER COOPERATIVE, INC.
MINUTES OF BOARD MEETING
DECEMBER 9, 2003

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, December 9, 2003, at 9:30 a.m. EST pursuant to proper notice.

Chairman Delno Tolliver called the meeting to order. Jackie Browning 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
Dudley Bottom, Alternate	Shelby
Fred Brown	Jackson
Donnie Crum	Grayson
P. D. Depp	Taylor County
Danny Divine	Inter-County
E. A. Gilbert	Blue Grass
Virgil "Jack" Ginter	Clark Energy
Jimmy Longmire	Salt River
C. F. Martin	Farmers
Wade May	Big Sandy
Sam Penn	Owen
A. L. Rosenberger	Nolin
Rick Stephens	South Kentucky
Delno Tolliver	Cumberland Valley
Lonnie Vice	Fleming-Mason

BOARD MINUTES

On motion of Danny Divine, seconded by P. D. Depp, the minutes of the November 11, 2003, regular board meeting were approved.

ADOPTION OF AGENDA

On motion of A. L. Rosenberger, seconded by Jack Ginter, the agenda was adopted as mailed.

OPERATIONS, SERVICES AND SUPPORT ("OSS") COMMITTEE ACTION ITEMS

[redacted] Work [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Implementation of Wholesale Power Contract Amendment No. 3

After review of the applicable information, a motion was made by Fred Brown, seconded by Mike Adams, and, there being no further discussion, passed, with Rick Stephens and Lonnie Vice requesting that their "no" votes be recorded, to approve the following:

Whereas, The Rural Utilities Service ("RUS") has approved loan funds of $433,863,000.00 for the Gilbert Generating Unit ("Gilbert") conditioned on extension of the Wholesale Power Contracts ("WPCs") through December 31, 2040 by all member-owners;

Whereas, This Board of Directors ("Board") approved Amendment No. 3 to the WPCs ("Amendment") at the October 2003 Board meeting, and regards same as a policy, rule or regulation for purposes of Section 1.04. Termination of Membership of EKPC's Bylaws;

Whereas, The Board officers have concluded that all member-owners must execute the Amendment not later than December 31, 2003, in order to protect this least-cost financing option offered by RUS; and

Whereas, The Board officers and the Operations, Services & Support Committee recommend that any member-owner failing to execute the Amendment by December 31, 2003, must indemnify, hold harmless and otherwise be responsible to East Kentucky Power Cooperative, Inc. ("EKPC") and other member-owners for any additional cost associated with alternative financing to that presently offered by RUS for Gilbert; now, therefore, be it

Resolved, That the Board regards the Amendment as a policy, rule or regulation for purposes of By-Law interpretation;

Resolved, That all member-owners execute the Amendment by not later than December 31, 2003; and

Resolved, That any member-owner failing to execute the Amendment by December 31, 2003, shall indemnify, hold harmless and otherwise be responsible to EKPC, and other member-owners, for any additional cost associated with alternative financing to that presently offered by RUS for Gilbert.

OSS COMMITTEE INFORMATION ITEMS

[redacted]

Wholesale Power Contract ("WPC") Amendment No. 3 Meetings – Chairman Tolliver requested Mr. Palk inform the Board of the discussions held this morning by member systems South Kentucky and Fleming-Mason pertaining to the amendment. Mr. Palk said the two questions focused on were: 1) the first questions regarded going forward with the Partial Requirements Contract—RUS will not go forward with any Partial Requirements Contract until they do a study on what are the overall loan policy issues associated with the contract amendments. The resolution as adopted in November was reviewed; and it was restated that to get to the PRC negotiation state, execution of the Amendment No. 3 is a prerequisite; and 2) There was some discussion on the second question with regard to amendment No. 3 under paragraph "1.c." about where loads will come to EKPC from areas outside the service area—what did that mean. Did it mean that we were supposed to take any load that came along, etc., and what due diligence was required as a prerequisite to transferring that load to EKPC. My understanding and my interpretation of the substance of that is that those are the two questions that had bearing on Allen Anderson's, Rick Stephens', Tony Overbey's, and Lonnie Vice's minds. The answer to the second question is that we will arrive at a due diligence process that is satisfactory to RUS, to the seller, to the member cooperative, and to EKPC so that the result of that due diligence becomes the prerequisite for transferring any load to EKPC. That due diligence would take into account

August 29, 2003

Board of Directors
East Kentucky Power Cooperative, Inc.

Gentlemen:

Notice is hereby given that the regular meeting of the **East Kentucky Power Cooperative, Inc.,** Board of Directors will be held on ***Tuesday, September 9, 2003*****, at the East Kentucky Power Cooperative, Inc. headquarters, 4775 Lexington Road, Winchester, Kentucky 40391,** immediately following the three standing committee meetings (beginning at 9:30 a.m. (EDT), for purposes of considering and taking action on those matters shown on the agenda, to-wit:

AGENDA

I. CALL TO ORDER

II. INVOCATION

III. ROLL CALL

IV. ACTION ON PREVIOUS BOARD MINUTES

V. ADOPTION OF AGENDA

VI. REPORT OF OFFICERS

A. Report of the President and Chief Executive Officer – PALK

[redacted]

VIII. **OPERATIONS, SERVICES & SUPPORT COMMITTEE ITEMS**
Fred Brown, Chairman

A. **Board Action Requested**:

[redacted]

2. Approval of Wholesale Power Contract Amendment No. 3 *(actual amendment will be sent separately, next week)* – PALK/EAMES

[redacted]

[redacted]

REPORT OF THE OFFICERS

[redacted]

[redacted]

[redacted]

RUS Response to Amendment for Wholesale Power Contract ("WPC") – Roy Palk reviewed RUS' four responses regarding negotiations for extension of the WPC to make its term the same as the loan on Gilbert Unit No. 3 of Spurlock Station. The Gilbert Unit is approximately 60% complete. The Gilbert loan is going to the RUS loan committee tomorrow—September 10, but is subject to the four RUS conditions that were faxed and/or mailed to each Board member on September 4. The four RUS conditions are: *1.* If member systems want to obtain service territory outside of their regular service territory and that serviced area is provided by another supplier, that supply contract needs to be honored. *2.* If member systems want to get off-system supply power from a non-EKPC source, that is a combination of two factors—each member system cannot exceed 15% of its peak over a three-year period, nor can those 15%, collectively for all the members, exceed 5% of EKPC's peak during the same period. *3.* If loads obtained off of EKPC's system are brought to EKPC's system, there is a differentiation between 5 MW and under and 5 MW and over, in terms of a notice provision to EKPC. If it is 5 MW and under, it is a 90-day notice period so EKPC can arrange power supply. If it is 5 MW and over, it is not to exceed 18 months notice period so EKPC can prepare to serve that load.
4. Once that load comes onto the EKPC system, that election is irrevocable—it stays on EKPC's system. Mr. Palk said he believes there is no disagreement with the first point—to honor a contract if it is another service provider; nor the third point—the 90 days vs. 18 months; nor the fourth point—the irrevocable election provision. The point of contention with RUS is point No. 2. as stated above.

Regarding point No. 2, Mr. Palk presented and discussed five points, as follows.

1. RUS final position – 4 points – Hilda Legg:
   Mr. Palk said, upon verification this morning with RUS Administrator, Hilda Legg, the four above conditions are RUS' final position. He noted that as a result of negotiations among RUS, South Kentucky, Fleming-Mason, and EKPC, RUS did move the limit for member systems from 10% to 15%. RUS said it would go no higher than 15% stating they believe a default could occur at the member system level and put the G&T at risk. EKPC/member systems responded that the opportunities for additional territory for member systems would come with revenue and would be on-going business transactions of non-speculative risks. RUS said they understood that in EKPC's case, but that RUS would not want to set a precedence whereby they bind themselves to other transactions that may not be as strong as the EKPC system; that if they do this in a broader sense they want to make it a general policy of RUS rather than make individual exceptions.

2. Impact of 5% and 15%:

   Mr. Palk distributed and reviewed a handout relative to EKPC peak loads from December 2000 through January 2003, and the 15% and 5% impact for that time period. The member system 15% allowance ranged from 9 MW to 47 MW, with the EKPC 5% average being 119 MW. He said a mechanism would need to be devised in order that all member systems could participate if they choose.

3. Cost of alternate financing:

   Mr. Palk invited David Eames to discuss this point. Mr. Eames said there were two ways to look at the financing—if we have to find alternate financing for the Gilbert loan ($400+ million), landfill gas loan ($25 million), CFC $50 million short-term financing loan for CT 6 and 7, and about $30 million for transmission facilities. EKPC would probably work with CFC to syndicate a loan, with about a $7.5 million increase in interest expense the first year, which would require a lien accommodation from RUS with possibly the same restrictions. The next alternative would be to refinance all RUS and FFB debt, which would mean a prepayment penalty (buy-out premium) of approximately $63 million and increased interest expense of about $11 million incurred on existing debt. Also, the annual interest expense would increase (interest rate differential) approximately $18 million—based on non-RUS borrowings. Mr. Eames distributed this information.

4. Distribution Mortgage Allowance – i.e. Non-RUS $, Lien Accommodation, Subsidiary of Distribution Coop.:

   Mr. Palk continued with, if flexibility is not achievable to the degree that is sought at the G&T level, what are the options at the distribution level. He asked Sherman Goodpaster discuss alternatives he had researched regarding options which allow member distribution systems to acquire non-G&T power supply and keep their current power supply. According to Mr. Goodpaster, the most popular option was creation of a subsidiary—a separate entity created under the member cooperative. This allows the subsidiary to acquire a potential system and get the power supply out from under the wholesale power supply. The new load does not become a part of the cooperative system so it's not under the WPC. At that point the member system could acquire other power supply sources or honor existing power supply contracts. Another option for the distribution system is to acquire the new load and have the G&T (EKPC) become the purchaser under that existing power supply and then resell the power back to the member. This could be done either as a pass-through at the existing contract rate, which would probably entail a tariff change, or as actual assignment of the power supply contract to EKPC and allow EKPC to incorporate that contract into its own portfolio and pass that on to the members under its existing tariff. These are possible options that RUS may consider. Mr. Goodpaster will e-mail this information to the member systems.

5. How to handle if all 16 do not accept -

   Finally, Mr. Palk, stated that he talked with Victor Vu at RUS this morning, and was told all sixteen members must accept.

   He recapped all points noting the costs of alternate financing, the member system options presented by Mr. Goodpaster, and that all members must be on board. He also added that in RUS's letter of the four points, they did say that if there are transactions that you contemplate that would be beyond the 5% and 15% criteria, they would entertain an analysis of those on a case-by-case basis.

Following discussion, Allen Anderson and Tony Overbey said they would like to discuss this material with their boards. Mr. Palk said he will contact RUS today and report that two cooperatives will inform their boards of information discussed today. South Kentucky requested that EKPC work up several real scenarios for review. Mr. Palk stated that anyone needing any assistance regarding this matter to please contact him. It is anticipated this item will come before the Board in October.

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REPORT OF THE OFFICERS

Report of the President and Chief Executive Officer

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Wholesale Power Contract Update – Mr. Palk distributed and the group reviewed and discussed RUS' comments to Amendment No. 3 to the EKPC Wholesale Power Contract that were received via e-mailed today. RUS will approve the Gilbert loan by the end of its fiscal year—September 30—conditional upon EKPC and its members' intentions to extend the EKPC Wholesale Power Contract; but monies cannot be drawn until all contracts are actually extended. It may take OGC up to nine months to do the loan documents after all members have approved the contract. Mr. Palk suggested a conference call this week with RUS and any interested member systems; and anyone with questions or suggestions with regard to RUS' comments should get them to him immediately.

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May 30, 2003

Board of Directors
East Kentucky Power Cooperative, Inc.

Gentlemen:

Notice is hereby given that the regular meeting of the **East Kentucky Power Cooperative, Inc.,** Board of Directors will be held on ***Monday, June 9, 2003*****, at the Cave City Convention Center, 502 Mammoth Cave Street, Cave City, Kentucky (off Exit I-65 at Exit 53)** immediately following the three standing committee meetings, for purposes of considering and taking action on those matters shown on the agenda, to-wit:

AGENDA

I. CALL TO ORDER

II. INVOCATION

III. ROLL CALL

IV. ACTION ON PREVIOUS BOARD MINUTES

V. ADOPTION OF AGENDA

VI. REPORT OF OFFICERS

A. Report of the President and Chief Executive Officer – PALK

VII. **OPERATIONS, SERVICES & SUPPORT COMMITTEE ITEMS**
Jimmy Longmire, Chairman

A. **Board Action Requested:**

[redacted]

5. Approval of Wholesale Power Contract Amendment – PALK/EAMES

[redacted]

EAST KENTUCKY POWER COOPERATIVE, INC.
MINUTES OF BOARD MEETING
May 13, 2003

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, May 13, 2003, at 12:30 p.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 Bobby Sexton. The secretary took the roll call with the following directors present:

Mike Adams	Licking Valley
Allen Anderson, Alternate	South Kentucky
Fred Brown	Jackson
Donnie Crum	Grayson
Danny Divine	Inter-County
E. A. Gilbert	Blue Grass
Virgil "Jack" Ginter	Clark Energy
Jimmy Longmire	Salt River
C. F. Martin	Farmers
Sam Penn	Owen
A. L. Rosenberger	Nolin
Bobby Rucker	Taylor County
Bobby Sexton	Big Sandy
Wayne Stratton	Shelby
Delno Tolliver	Cumberland Valley
Lonnie Vice	Fleming-Mason

BOARD MINUTES

On motion of Danny Divine, seconded by C. F. Martin, the minutes of the April 8, 2003, regular board meeting were approved.

ADOPTION OF AGENDA

On motion of A. L. Rosenberger, seconded by Lonnie Vice, the agenda was adopted as mailed.

[redacted]

[redacted]

EKPC Board Meeting Minutes
Page 2
May 13, 2003

REPORT OF THE OFFICERS

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Extension of the Wholesale Power Contracts (WPC) – Mr. Palk told the Board that EKPC was informed, since the last board meeting, that the Rural Utilities Service ("RUS") will not take up the Gilbert Generating Unit loan within RUS without the extension of the WPC by amendment signed by all 16 members. During the Operations, Services & Support Committee meeting an extensive discussion took place where some questions and concerns were voiced about the WPC. Mr. Palk said all questions, proposals, other concepts, and concerns need to be given to EKPC management immediately in order to determine if the WPC extension can go forward. Action needs to be taken by the July EKPC Board meeting in order to get this to RUS by the end of their fiscal year in September. Copies of a memo and Amendment discussion draft previously mailed to Member System Managers were distributed and reviewed by Dave Eames. Several Member system managers spoke of a few concerns. It was suggested and Mr. Palk will arrange for an RUS representative to meet with the three-four member systems and EKPC in order to come to an acceptable conclusion on the amendment matter.

Warren RECC RFP Update – Warren has officially given TVA its notice to leave and has issued an RFP for power supply to several entities, including EKPC, with the response deadline being May 19. Dave Eames reported on the content of EKPC's proposed response and noted the response is subject to EKPC Board approval at its June meeting and also subject to approval of the Kentucky Public Service Commission and the Rural Utilities Service.

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EAST KENTUCKY POWER COOPERATIVE, INC.
MINUTES OF BOARD MEETING
April 8, 2003

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, April 8, 2003, at 9:30 a.m. EDT 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 Bobby Sexton. The secretary took the roll call with the following directors present:

Mike Adams	Licking Valley
Dudley Bottom, Alternate	Shelby
Fred Brown	Jackson
Donnie Crum	Grayson
Danny Divine	Inter-County
E. A. Gilbert	Blue Grass
Virgil "Jack" Ginter	Clark Energy
Jimmy Longmire	Salt River
C. F. Martin	Farmers
Barry Myers, Alternate	Taylor County
Sam Penn	Owen
A. L. Rosenberger	Nolin
Bobby Sexton	Big Sandy
Delno Tolliver	Cumberland Valley
Lonnie Vice	Fleming-Mason

South Kentucky was not represented.

BOARD MINUTES

On motion of Danny Divine, seconded by A. L. Rosenberger, the minutes of the March 11, 2003, regular board meeting were approved.

ADOPTION OF AGENDA

On motion of Dudley Bottom, seconded by E. A. Gilbert, the agenda was adopted as mailed.

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EKPC Board Meeting Minutes
Page 2
April 8, 2003

REPORT OF THE OFFICERS

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5% Off-System Power Purchase Contract ("OPPC") – Several member systems have indicated an interest in the 5% OPPC which was previously shared with the Board. Mr. Palk will send a mailing to all member system managers in order to set a date to discuss the 5% OPPC and review how Minnkota Power is using this process.

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EAST KENTUCKY POWER COOPERATIVE, INC.
MINUTES OF BOARD MEETING
MARCH 11, 2003

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 11, 2003, at 12:35 p.m. EST pursuant to proper notice.

Chairman Delno Tolliver called the meeting to order. Jackie Browning gave the invocation. The minutes were kept under the supervision of Secretary Bobby Sexton. The secretary took the roll call with the following directors present:

Mike Adams	Licking Valley
Fred Brown	Jackson
Donnie Crum	Grayson
E. A. Gilbert	Blue Grass
Jim Jacobus, Alternate	Inter-County
Jimmy Longmire	Salt River
C. F. Martin	Farmers
Barry Myers, Alternate	Taylor County
Sam Penn	Owen
A. L. Rosenberger	Nolin
Bobby Sexton	Big Sandy
Richard Stephens	South Kentucky
Wayne Stratton	Shelby
Delno Tolliver	Cumberland Valley
Lonnie Vice	Fleming-Mason

Clark Energy was not represented.

BOARD MINUTES

On motion of Jimmy Longmire, seconded by A. L. Rosenberger, the minutes of the February 11, 2003, regular board meeting were approved.

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Wholesale Power Contract (WPC) Amendment – Mr. Palk noted that several months ago a copy of a WPC amendment, which was adopted by Minnkota G&T and approved by RUS, was sent to all member system managers for their information and review. Mr. Palk then called upon Allen Anderson of South Kentucky to described South Kentucky's circumstance that would be served by this flexibility in power supply in the WPC. Mr. Palk said material would be re-sent to the member system managers and he requested those interested to contact him.

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Wholesale Power Contract ("WPC") Amendment Update – Mr. Palk reviewed his three-step plan he presented in October, being:

1. Instruct Finance to determine the other-than-RUS costs and how they would be proportioned—an example was provided November 5 to each board member;

2. Contact RUS and CFC for further dialogue—discussion took place at the G&T Managers meeting in late October, with RUS continuing its position that all 16 members' signatures are necessary to release Gilbert loan funds. RUS is not willing to take up the Partial Requirements Contract ("PRC") submittal until they can review the PRC on a broader, nationwide policy basis. RUS has asked for assistance from the G&T Managers Association, with the first meeting being November 25, making the PRC approach some time down the road.

3. Contact the Kentucky Public Service Commission about the issues this causes for both EKPC and the member systems—Dale Henley has talked with the PSC executive director, in confidence, to make him aware of the issues surrounding this matter.

With regard to the 5/15% issue, Mr. Palk stressed that in order for a cooperative to take advantage of the 5/15%, the resolution must first be signed. In looking at how to get to the PRC option, that is a step after adoption of the Amendment No. 3 to the WPC. He then reviewed his concept plan on how to manage the 5/15% issue. The 5/15% would go into a pool and, immediately, every cooperative would have the right to take 5%. Each cooperative would have a prescribed period of time in which to submit a plan for use of its 5%. If the plan is not presented and/or not acted upon as presented, then that 5% would go

EAST KENTUCKY POWER COOPERATIVE, INC.
MINUTES OF BOARD MEETING
OCTOBER 14, 2003

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, October 14, 2003, at 12:20 p.m. EDT pursuant to proper notice.

Chairman Delno Tolliver called the meeting to order. Jackie Browning 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
Donnie Crum	Grayson
P. D. Depp	Taylor County
Danny Divine	Inter-County
E. A. Gilbert	Blue Grass
Virgil "Jack" Ginter	Clark Energy
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

BOARD MINUTES

On motion of E. A. Gilbert, seconded by Wade May, the minutes of the September 9, 2003, regular board meeting were approved.

ADOPTION OF AGENDA

On motion of P. D. Depp, seconded by Jack Ginter, the agenda was adopted as amended with correction of the acreage in the Executive Summary pertaining to a project with Jackson Energy Cooperative under Power Delivery Committee items.

[redacted]

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[redacted]

Wholesale Power Contract Amendment No. 3

After review of the applicable information, a motion was made by Fred Brown, seconded by Wayne Stratton, and, there being no further discussion and upon the Chairman's request for a roll-call vote, with the following Directors voting "yes:" Michael Adams, Fred Brown, Donnie Crum, P. D. Depp, Daniel Divine, E. A. Gilbert, Virgil "Jack" Ginter, Jimmy Longmire, C. F. Martin, Wade May, Sam Penn, A. L. Rosenberger, Wayne Stratton, and Delno Tolliver; and the following Directors voting "no:" Rick Stephens and Lonnie Vice; the following motion was passed with 14 "yes" votes and 2 "no" votes:

Whereas, On February 6, 2001, the East Kentucky Power Cooperative, Inc. ("EKPC") Board of Directors ("Board") approved construction of the 268 MW E.A. Gilbert Generating Unit ("Gilbert") at the Spurlock Power Station in Mason County, Kentucky, for purposes of securing an economical long-term source of wholesale power for EKPC's 16 member-owners;

Whereas, On August 14, 2001, the EKPC Board approved a loan filing with the Rural Utilities Service ("RUS") for $410,000,000 to finance Gilbert and related transmission facilities; and on April 8, 2003, this loan application was amended to increase the amount to $434,000,000;

Whereas, RUS has informed EKPC that its approval of the loan package is conditioned on extension of the Wholesale Power Contracts ("WPC") through 2041;

Whereas, The proposed amendment provides, for the first time, some flexibility to the member-owners' current obligation to secure all of their system power supply needs from EKPC;

Whereas, RUS has agreed to consider opportunities for member-owners outside the percentage limitations contained in Amendment No. 3 on a case-by-case basis; to make every effort to work with member-owners and EKPC to convert any member-owner's WPC, as amended, to a partial requirements contract with 24 months;

Whereas, RUS financing is the least cost option for Gilbert; and

Whereas, Management and the Operations, Services and Support Committee recommend approval; now, therefore, be it

Resolved, That the EKPC Board approves Amendment No. 3 to the WPC, as attached, subject to RUS review and approval;

Resolved, That the EKPC Board commits to making every effort to work with member-owners and RUS to convert any member-owner's WPC, as amended, to a partial requirements contract within 24 months; and

Resolved, That the EKPC Board requests that each of its member-owner cooperatives approve and execute Amendment No. 3 at their next board meeting.

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00BREAK00

EKPC - Finance and Planning Vice President-Delivery 9

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Board Action, Summary of

- Board - EKP & CB - 2003: - Summary of Board Meeting
  - EKP Board Minutes
  - CB Board Minutes
  - Executive Session Minutes
  - Board Resolutions - EKP & CB
  - Audit Committee Minutes and Audit Committee - General Back-up

2003 Executive Sessions of EKPC Board Meetings

00BREAK00

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

At a regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. held at the Headquarters Building, 4775 Lexington Road, located in Winchester, Kentucky, on Tuesday, December 9, 2003, at 9:30 a. m., EST, the following business was transacted:

After review of the applicable information, a motion was made by Fred Brown, seconded by Mike Adams, and, there being no further discussion, passed, with Rick Stephens and Lonnie Vice requesting that their "no" votes be recorded, to approve the following:

Whereas, The Rural Utilities Service ("RUS") has approved loan funds of $433,863,000.00 for the Gilbert Generating Unit ("Gilbert") conditioned on extension of the Wholesale Power Contracts ("WPCs") through December 31, 2040 by all member-owners;

Whereas, This Board of Directors ("Board") approved Amendment No. 3 to the WPCs ("Amendment") at the October 2003 Board meeting, and regards same as a policy, rule or regulation for purposes of Section 1.04. Termination of Membership of EKPC's Bylaws;

Whereas, The Board officers have concluded that all member-owners must execute the Amendment not later than December 31, 2003, in order to protect this least-cost financing option offered by RUS; and

Whereas, The Board officers and the Operations, Services & Support Committee recommend that any member-owner failing to execute the Amendment by December 31, 2003, must indemnify, hold harmless and otherwise be responsible to East Kentucky Power Cooperative, Inc. ("EKPC") and other member-owners for any additional cost associated with alternative financing to that presently offered by RUS for Gilbert; now, therefore, be it

Resolved, That the Board regards the Amendment as a policy, rule or regulation for purposes of By-Law interpretation;

Resolved, That all member-owners execute the Amendment by not later than December 31, 2003; and

Resolved, That any member-owner failing to execute the Amendment by December 31, 2003, shall indemnify, hold harmless and otherwise be responsible to EKPC, and other member-owners, for any additional cost associated with alternative financing to that presently offered by RUS for Gilbert.

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

Witness my hand and seal this 9th day of December, 2003.

Sam Penn

Sam Penn, Secretary

Corporate Seal

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

At a regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. held at the Headquarters Building, 4775 Lexington Road, located in Winchester, Kentucky, on Tuesday, October 14, 2003, at 12:20 p. m., EDT, the following business was transacted:

After review of the applicable information, a motion was made by Fred Brown, seconded by Wayne Stratton, and, there being no further discussion and upon the Chairman's request for a roll-call vote, with the following Directors voting "yes:" Michael Adams, Fred Brown, Donnie Crum, P. D. Depp, Daniel Divine, E. A. Gilbert, Virgil "Jack" Ginter, Jimmy Longmire, C. F. Martin, Wade May, Sam Penn, A. L. Rosenberger, Wayne Stratton, and Delno Tolliver; and the following Directors voting "no:" Rick Stephens and Lonnie Vice; the following motion was passed with 14 "yes" votes and 2 "no" votes:

Whereas, On February 6, 2001, the East Kentucky Power Cooperative, Inc. ("EKPC") Board of Directors ("Board") approved construction of the 268 MW E.A. Gilbert Generating Unit ("Gilbert") at the Spurlock Power Station in Mason County, Kentucky, for purposes of securing an economical long-term source of wholesale power for EKPC's 16 member-owners;

Whereas, On August 14, 2001, the EKPC Board approved a loan filing with the Rural Utilities Service ("RUS") for $410,000,000 to finance Gilbert and related transmission facilities; and on April 8, 2003, this loan application was amended to increase the amount to $434,000,000;

Whereas, RUS has informed EKPC that its approval of the loan package is conditioned on extension of the Wholesale Power Contracts ("WPC") through 2041;

Whereas, The proposed amendment provides, for the first time, some flexibility to the member-owners' current obligation to secure all of their system power supply needs from EKPC;

Whereas, RUS has agreed to consider opportunities for member-owners outside the percentage limitations contained in Amendment No. 3 on a case-by-case basis; to make every effort to work with member-owners and EKPC to convert any member-owner's WPC, as amended, to a partial requirements contract with 24 months;

Whereas, RUS financing is the least cost option for Gilbert; and

Whereas, Management and the Operations, Services and Support Committee recommend approval; now, therefore, be it

Resolved, That the EKPC Board approves Amendment No. 3 to the WPC, as attached, subject to RUS review and approval;

Resolved, That the EKPC Board commits to making every effort to work with member-owners and RUS to convert any member-owner's WPC, as amended, to a partial requirements contract within 24 months; and

Resolved, That the EKPC Board requests that each of its member-owner cooperatives approve and execute Amendment No. 3 at their next board meeting.

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

Witness my hand and seal this 14th day of October, 2003.

Sam Penn

Sam Penn, Secretary

Corporate Seal

AMENDMENT NO. 3 TO WHOLESALE POWER CONTRACT
BETWEEN EAST KENTUCKY POWER COOPERATIVE, INC. AND
____

This Agreement dated the __________ day of __________________, 2003, amends the Wholesale Power Contract dated October 1, 1964 between East Kentucky Power Cooperative, Inc. (hereinafter "Seller") and ________________________________ ____________________ (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:______________________________

ITS:______________________________

____
ATTEST, SECRETARY

____
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BY:______________________________

ITS:______________________________

____
ATTEST, SECRETARY

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

OOBREAKOO

EKPC - Finance and Planning Vice President-Delivery 9

2506

Board Action, Summary of

- Board - EKP & CB - 2003: - Summary of Board Meeting
  - EKP Board Minutes
  - CB Board Minutes
  - Executive Session Minutes
  - Board Resolutions - EKP & CB
  - Audit Committee Minutes and Audit Committee - General Back-up

May 2003
Board Meeting

OOBREAKOO

EAST KENTUCKY POWER COOPERATIVE, INC.
MINUTES OF BOARD MEETING
April 8, 2003

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, April 8, 2003, at 9:30 a.m. EDT 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 Bobby Sexton. The secretary took the roll call with the following directors present:

Mike Adams	Licking Valley
Dudley Bottom, Alternate	Shelby
Fred Brown	Jackson
Donnie Crum	Grayson
Danny Divine	Inter-County
E. A. Gilbert	Blue Grass
Virgil "Jack" Ginter	Clark Energy
Jimmy Longmire	Salt River
C. F. Martin	Farmers
Barry Myers, Alternate	Taylor County
Sam Penn	Owen
A. L. Rosenberger	Nolin
Bobby Sexton	Big Sandy
Delno Tolliver	Cumberland Valley
Lonnie Vice	Fleming-Mason

South Kentucky was not represented.

BOARD MINUTES

On motion of Danny Divine, seconded by A. L. Rosenberger, the minutes of the March 11, 2003, regular board meeting were approved.

ADOPTION OF AGENDA

On motion of Dudley Bottom, seconded by E. A. Gilbert, the agenda was adopted as mailed.

[redacted]

[redacted]

[redacted]

REPORT OF THE OFFICERS

[redacted]

[redacted]

5% Off-System Power Purchase Contract ("OPPC") – Several member systems have indicated an interest in the 5% OPPC which was previously shared with the Board. Mr. Palk will send a mailing to all member system managers in order to set a date to discuss the 5% OPPC and review how Minnkota Power is using this process.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

00BREAK00

EKPC - Finance and Planning Vice President-Delivery 9

2504

Board Action, Summary of

- Board - EKP & CB - 2005: - Summary of Board Meeting
  - EKP Board Minutes
  - CB Board Minutes
  - Executive Session Minutes
  - Board Resolutions - EKP & CB
  - Audit Committee Minutes and Audit Committee - General Back-up

November 2003
December 2003
Board Meeting

00BREAK00

MINUTES OF
OPERATIONS, SERVICES & SUPPORT COMMITTEE MEETING

OCTOBER 14, 2003

COMMITTEE MEETING OF THE WHOLE -

Members of the Operations, Services and Support Committee joined members of the Fuel and Power Supply, and the Power Delivery Committees for a committee meeting of the whole on Tuesday, October 14, 2003, at the Headquarters Building. Board Chairman Delno Tolliver called the meeting to order at 9:30 a.m.

[redacted]:

[redacted]

[redacted]

[redacted]

[redacted]

Wholesale Power Contract Extension

Mr. Palk reviewed, in detail, the efforts by EKPC, South Kentucky RECC, Fleming-Mason EC and RUS to resolve issues surrounding execution of Contract Amendment No. 3 to the Wholesale Power Contract. In particular, he discussed South Kentucky and Fleming-Mason's three points (Bylaw modifications, administration of the 5/15% allocation, and a partial requirements contract) as they correlate with RUS' written position. During his presentation, South Kentucky RECC distributed to each member-owner a proposed term sheet for a partial requirements contract. Mr. Palk emphasized that if the Amendment No. 3 was not executed by all member systems, EKPC would proceed to evaluate alternate financing, and how to address any additional and avoidable cost to the RUS financing.

Mr. Palk also stated that both Allen Anderson and Tony Overbey had indicated to him that they did not want any additional and avoidable costs to be borne by the other 14 member-owners. Allen Anderson and Tony Overbey addressed the committee members with their positions on the proposed Amendment No. 3.

David Eames then discussed EKPC's existing financial condition as well as what the impact would be to Fleming-Mason and South Kentucky. He said EKPC received a letter last week from RUS approving the Gilbert loan for $433 million, restricted by approval of extension of the WPC through December 31, 2040. Current funding for Gilbert is from EKPC general funds and a CFC loan. EKPC has an operating line of credit for $50 million with CFC as well as a two-year construction facility for $100 million, with only $50 million available to us. By July 2004, EKPC will have used both $50 million lines from CFC and it will be necessary to have CFC release the remaining $50 million in the construction facility. Doing this will allow EKPC to finance its operations through October 2004. CFC will help EKPC through this, but they will most likely need a short-term lien accommodation from RUS until EKPC and its member systems finalize extension of the WPC. This would require another $100 million from CFC, bringing the total to $300 million needing to be borrowed from CFC between now and April 2005. If CFC has to convert this to a long-term financing, CFC estimates that the cost will be about 200-225 basis points or 2.25% in higher interest, or about $8.5 million of additional interest expense in the first year. If we continue with RUS and go on a split amortization and pay off about 18% of the loan on a shorter term over the existing WPC and the balance over a new WPC, that changes EKPC's cash flow wherein in the first year there will be a negative cash flow of approximately $1.5 million and over the remaining life of the existing contract, that will build up so there will be a negative cash flow because of the increase in principal payments of a total of about $55 million by 2025.

At 10:40 a.m., Chairman Tolliver called for the committee meeting of the whole to adjourn in order for the three standing committees to conduct their regular monthly meetings.

[redacted]

[redacted]

Mike Adams	Licking Valley
Fred Brown	Jackson
Bruce Davis	Big Sandy
Jim Jacobus	Inter County
Jimmy Longmire	Salt River
Mickey Miller	Nolin
Tony Overbey	Fleming-Mason
Rick Stephens	South Kentucky
Wayne Stratton	Shelby

EKPC staff members present for all or a portion of the meeting were: Roy Palk, Dave Eames, Dale Henley, Mary Stanley, Doug Oliver, Steve McClure, Scott Braswell, and Gary Crawford. Also present were Mike Norman of RUS and Bobby Sexton of Big Sandy.

ACTION ITEMS -

Committee Meeting Minutes

A motion was made by Mike Adams, seconded by Jimmy Longmire and passed to approve the September 9, 2003, committee meeting minutes as mailed to each committee member and as included in the Board book.

[redacted]

[redacted]

Wholesale Power Contract Amendment No. 3

After review of the applicable information, a motion was made by Mike Adams, seconded by Wayne Stratton, and, there being no further discussion, passed, with two negative votes, to recommend the Board approve Amendment No. 3 to the Wholesale Power Contract ("WPC"), subject to RUS review and approval; approved the Board to commit to making every effort to work with member-owners and RUS to convert any member-owner's WPC, as amended, to a partial requirements contract within 24 months; and the Board requested that each of its member-owner cooperatives approve and execute Amendment No. 3 at their next board meeting, as outlined in the resolution included in the Board book.

[redacted]

00BREAK00

EKPC - Finance and Planning Vice President-Delivery 9

2 5 Ø 6

Board Action, Summary of

- Board - EKP & CB - 2003: - Summary of Board Meeting
- EKP Board Minutes
- CB Board Minutes
- Executive Session Minutes
- Board Resolutions - EKP & CB
- Audit Committee Minutes and Audit Committee - General Back-up

September 2003
Board Meeting

00BREAK00

EAST KENTUCKY POWER COOPERATIVE, INC.
MINUTES OF BOARD MEETING
AUGUST 12, 2003

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, August 12, 2003, at 12:30 p.m. EDT pursuant to proper notice.

Chairman Delno Tolliver called the meeting to order. Jackie Browning 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
Donnie Crum	Grayson
Danny Divine	Inter-County
E. A. Gilbert	Blue Grass
Virgil "Jack" Ginter	Clark Energy
Jimmy Longmire	Salt River
C. F. Martin	Farmers
Wade May	Big Sandy
Barry Myers, Alternate	Taylor County
Sam Penn	Owen
A. L. Rosenberger	Nolin
Wayne Stratton	Shelby
Delno Tolliver	Cumberland Valley
Lonnie Vice	Fleming-Mason

Also present was P. D. Depp, Director of Taylor County RECC.

BOARD MINUTES

On motion of Jack Ginter, seconded by A. L. Rosenberger, the minutes of the July 8, 2003, regular board meeting were approved.

ADOPTION OF AGENDA

On motion of E. A. Gilbert, seconded by Jack Ginter, the agenda was adopted as amended with the addition of Seating of the Taylor County RECC Director.

[redacted]

[redacted]

[redacted]

[redacted]

REPORT OF THE OFFICERS

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Wholesale Power Contract Update – Mr. Palk distributed and the group reviewed and discussed RUS' comments to Amendment No. 3 to the EKPC Wholesale Power Contract that were received via e-mailed today. RUS will approve the Gilbert loan by the end of its fiscal year—September 30—conditional upon EKPC and its members' intentions to extend the EKPC Wholesale Power Contract; but monies cannot be drawn until all contracts are actually extended. It may take OGC up to nine months to do the loan documents after all members have approved the contract. Mr. Palk suggested a conference call this week with RUS and any interested member systems; and anyone with questions or suggestions with regard to RUS' comments should get them to him immediately.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

00BREAK00

EKPC - Finance and Planning Vice President-Delivery 9

2 5 Ø 6

Board Action, Summary of

- Board - EKP & CB - 2003: - Summary of Board Meeting
  - EKP Board Minutes
  - CB Board Minutes
  - Executive Session Minutes
  - Board Resolutions - EKP & CB
  - Audit Committee Minutes and Audit Committee - General Back-up

October 2003
Board Meeting

00BREAK00

12:50 Rick Stephens in
Tony O &
Allen A not back yet

met n ~~Additional~~ Met w/CC - continuing dialog about significant audit areas. New issues = SAS 99 = fraud issues expanding scope Depre Error - last couple years - will run thru this years operations. ~~##~~ Schedule of upcoming audit schedule.

Page No.

[redacted]
Wayne [redacted]

[redacted]

[redacted] --

VIII. OPERATIONS, SERVICES & SUPPORT COMMITTEE ITEMS
Fred Brown, Chairman

A. **Board Action Requested**:

Oct 19'03

1) F.B. 2) D. Dering. disc-0 passed

[redacted] -- (2)

Tony O. Allen A come in

1) F.B. 2. Approval [redacted] O3-O5 (1)
2) ... disc-0 passed

1) F. Brown 2) W. Shatton 3. Approval of Wholesale Power Contract Amendment No. 3 – PALK/EAMES O6-O12 (3) attachment 3 wait to hear from Dale
disc-0 D.T. asked for roll call vote = 14-yes 2-No Motion passed

1) F. Brown [redacted] O13-O14 (4)
2) E.A. Gilbert passed Presentation of Cert. to B. Davis

[redacted] O15-O41

F.B. = Called attention to O21

[redacted]

[redacted] Ok

[redacted] --

[redacted] see F1 F3-F36

B

Regarding point No. 2, Mr. Palk presented and discussed five points, as follows.

1. RUS final position – 4 points – Hilda Legg:
   Mr. Palk said, upon verification this morning with RUS Administrator, Hilda Legg, the four above conditions are RUS' final position. He noted that as a result of negotiations among RUS, South Kentucky, Fleming-Mason, and EKPC, RUS did move the limit for member systems from 10% to 15%. RUS said it would go no higher than 15% stating they believe a default could occur at the member system level and put the G&T at risk. EKPC/member systems responded that the opportunities for additional territory for member systems would come with revenue and would be on-going business transactions of non-speculative risks. RUS said they understood that in EKPC's case, but that RUS would not want to set a precedence whereby they bind themselves to other transactions that may not be as strong as the EKPC system; that if they do this in a broader sense they want to make it a general policy of RUS rather than make individual exceptions.

2. Impact of 5% and 15%:

   Mr. Palk distributed and reviewed a handout relative to EKPC peak loads from December 2000 through January 2003, and the 15% and 5% impact for that time period. The member system 15% allowance ranged from 9 MW to 47 MW, with the EKPC 5% average being 119 MW. He said a mechanism would need to be devised in order that all member systems could participate if they choose.

3. Cost of alternate financing:

   Mr. Palk invited David Eames to discuss this point. Mr. Eames said there were two ways to look at the financing—if we have to find alternate financing for the Gilbert loan ($400+ million), landfill gas loan ($25 million), CFC $50 million short-term financing loan for CT 6 and 7, and about $30 million for transmission facilities. EKPC would probably work with CFC to syndicate a loan, with about a $7.5 million increase in interest expense the first year, which would require a lien accommodation from RUS with possibly the same restrictions. The next alternative would be to refinance all RUS and FFB debt, which would mean a prepayment penalty (buy-out premium) of approximately $63 million and increased interest expense of about $11 million incurred on existing debt. Also, the annual interest expense would increase (interest rate differential) approximately $18 million—based on non-RUS borrowings. Mr. Eames distributed this information.

EKPC staff members present for all or a portion of the meeting were: Roy Palk, Dave Eames, Doug Oliver, Steve McClure, Dale Henley, Gary Crawford, Kevin Osbourn, and Scott Braswell. Also present was RUS representative, Mike Norman.

ACTION ITEMS -

Committee Meeting Minutes

[redacted]

[redacted]

[redacted]

[redacted]

Amendment to the EKPC Wholesale Power Contract

Roy Palk addressed the OSS Committee regarding the Wholesale Power Contract ("WPC") amendment as listed on the agenda. He said he would like to give the Committee a preliminary to his report to be presented later to the full Board and asked that the Committee take no action at this time. RUS, in a response letter, presented four conditions regarding extensions of the EKPC WPC, and that letter and a memo were faxed and/or mailed to each Board member on September 4. Mr. Palk confirmed with RUS this morning that those four conditions are RUS' final position. Mr. Palk noted the four conditions being as follows:

- If there is territory served by another power supplier, the distribution system would honor that contract;
- If member systems want to get off-system supply power from a non-EKPC source, each member system cannot exceed 15% of its peak over a three-year period; nor can that 15%, collectively for all the members, exceed 5% of EKPC's peak during the same period.
- Loads under 5 MW that are anticipated to be brought to EKPC would require a notice of 90 days or less for EKPC to prepare; and loads 5 MW and over would not exceed 18 months; and
- Once an election by a distribution system is made to bring that load to the EKPC system, that election is non-revocable.

The point of contention with RUS is point No. 2.—that the outside territory or growth not be counted against the 15%. RUS' response is they feel there needs to be some stability in the contract; that other G&Ts not as strong as the EKPC system will ask for contract renegotiations; and that they would be setting a precedence in allowing a broader range than the 15% or totally excluding anything beyond that from the 15%, which they do not want to do. Mr. Palk applauded Tony Overbey and Allen Anderson for their time and effort with him at meetings and conference calls and obtaining some concessions from RUS, although it is not as broad as desired. Mr. Palk said in his President's report during the Board meeting he will be covering five points regarding this issue which are:

1. This is RUS' final position as confirmed by Hilda Legg this morning;

2. The second point is the impact of the 5% and 15%. Mr. Palk will have a chart at the Board meeting which will show the impact during a continual, three-year time period ending July 2003. The chart shows the 5% on EKPC is about 119 MW and the impact on the member systems of 15% will range from 9 MW up to 47 MW per system. He said because the total member system numbers would add up to more than EKPC's 119 MW under this proposal from RUS, a mechanism would have to be devised whereby everyone would have an opportunity to participate.

   Dale Henley noted that RUS is willing to work at opportunities exceeding 15% on a case-by-case basis, and that the load which comes in at or less than 15% may continue to grow beyond the 15%. When the load is finally transferred to EKPC, the 15% renews.

3. The cost of alternate financing. Mr. Palk called on Dave Eames to inform the group of his initial review. Mr. Eames said there are two ways of looking at this—one is that we seek alternate financing from RUS for the Gilbert Unit and our financing going forward would come from alternate financing. He reviewed the current loans as the Gilbert Unit loan for over $400 million; the landfill gas loan application for $25 million; the CT 6 & 7 loan for approximately $50 million; and, in-house, approximately $30-$40 million worth of transmission facilities that are not yet in a loan package. This would be approximately $500 million, going forward from today, of loans that would need to be replaced through the market—either from CFC or some syndication headed up by CFC. He said at this time it is estimated that under FFB financing EKPC could probably obtain a rate of around 5 ½%. Regarding alternate financing, EKPC would have to obtain ratings from at least two of these three financial institutions—Standard and Poor's, Moody's, or Fitch. He said EKPC has looked at BBB-BBB+ companies—this being the bottom of the investment grade ratings, which is where EKPC would probably get rated. Currently, utilities with those ratings are borrowing at around 7%. That would mean EKPC would have to pay about 150 basis points of additional interest on the $500 million, or approximately $7.5 million the first year. Also, with this type of financing, we would need a lien accommodation from RUS. It is thought RUS would possibly put the same types of restrictions on the lien accommodation as they have on the WPC. If that happened, the only alternative EKPC would have at that point

would be to refinance all of our RUS/FFB debt. If EKPC retired its existing RUS/FFB debt and because the value of EKPC's mortgage principal has gone up as interest rates have gone down, EKPC would have to pay a premium to RUS of approximately $63 million, which EKPC would borrow and add to the debt at that point in time. Again, using the composite interest rate and the 7%, it is estimated that the additional interest expense in the first year would be about $11 million for just the existing debt, and if we add in the other number it would be about $18 million for both the existing debt and the new debt.

4. Mr. Palk said the next point is the issue of flexibility under the distribution mortgage. He said Sherman Goodpaster feels that the distribution members already have some flexibility in their own mortgage at the distribution level and Mr. Goodpaster has prepared a memorandum addressing this issue, which will be distributed to the member system managers.

5. The fifth point concerns RUS' final position on the matter. Mr. Palk said he confirmed with RUS' Victor Vu around 9:15 a.m. this morning and it is still RUS' position that it be all 16 member systems or nothing.

Mr. Palk said his intent for bringing this to the Committee in this way was for reporting purposes; to compliment Mr. Overbey and Mr. Anderson at having obtained some concession with RUS; and to have a full discussion of this issue in order to take the next step. In answer to a question, Mr. Palk noted that the Gilbert loan is going to the RUS loan committee tomorrow, September 10, and will be approved subject to the four RUS conditions being approved by the EKPC membership.

Extensive discussion was held, including Tony Overbey's input on Fleming-Mason's stand on the issue. Following discussion, it was the consensus of the group that this Committee take no action on this matter and that it be presented to and opened up for discussion during the Board meeting today.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Wood Presentation 1/4/2011

EAST KENTUCKY POWER COOPERATIVE

Management Audit Update

January 4, 2011

Michelle K. Carpenter, CPA
Internal Auditor

Overview:

- Initial Action Plans Developed by EKPC
- PSC Reporting Requirements
- Progress to date
- Timelines for 2011

Initial Implementation Plans

The Management Audit performed by Liberty Consulting Group included:

- 5 Management Action Items
- 17 Governance Action Items
- The Board approved the development of implementation plans for each of the action items noted by Liberty. These plans were submitted to the Public Service Commission on May 26, 2010.

EAST KENTUCKY POWER COOPERATIVE

PSC Reporting Requirements

- Original Liberty report required a short timeline to complete all of the management audit action items

- Liberty's report required oral reports every 60 days by both management and the Board (in addition to regulation requirement of written progress reports every 6 months)

Progress to Date

- The Governance Committee fulfilled its initial 60 day oral report requirement on August 31, 2010
- EKPC's first 6 month written progress report was filed on October 29, 2010
  - Documentation supporting all of EKPC's completed tasks is on file at EKPC due to confidential nature
  - Timelines were revised to be more realistic

Progress to Date

To date, the Board has:

- Written/revised 9 policies
- Written/revised 3 committee charters
- Revised Bylaw director qualifications
- Developed Governance Guiding Principles
- Developed an Issues List
- Performed CEO evaluation
- Participated in various financial workshops, and on-line risk management training
- Participated in strategic planning visioning
- Reviewed Director orientation materials
- Reviewed Risk Assessment Diagnostic

Timelines for 2011

Significant progress was made in 2010. However, there is much to accomplish in 2011.

- Current timelines indicate that some subcommittees will not complete work until July 2011

- PSC recognizes that the quality of the work product is more important than meeting timelines...however, we <u>must</u> show progress

EAST KENTUCKY POWER COOPERATIVE

Timelines for 2011

Standards & Expectations Subcommittee

- Determine verification process for director qualifications
- Revise Conflict of Interest Policy & Disclosure
- Review Committee structures, revise policies and charters as necessary
- Revise Director Compensation Policy
- Work to be completed by May 2011

Timelines for 2011

Oversight Development Subcommittee

- Develop Board self-evaluation tools
- Schedule Decision Making Workshop
- Develop External Experts Policy
- Complete Attorney Engagement Agreement
- Develop CEO Compensation Policy
- Revise CEO Search & Selection Policy
- Work to be completed by July 2011

Timelines for 2011

Risk Management Subcommittee

- Develop Hedging Policy
- Develop Sanctions Policy
- Revise Safety Policy
- Develop Fraud Assessment & Deterrent Policy
- Develop Internal Controls Policy
- Revise Internal Audit Policy
- Completion date of June 2011will likely need to be revised

EAST KENTUCKY POWER COOPERATIVE

Timelines for 2011

Financial Integrity Subcommittee

- Revise Financial Management Policy
- Determine other financial related policies necessary (investments, etc.)
- Develop equity management plan, financial targets, capital structure
- Monitor management's budget/forecast improvements
- Work to be completed by May 2011
  Monitoring will be on-going

EAST KENTUCKY POWER COOPERATIVE

Timelines for 2011

Strategic Planning Subcommittee

- Review strategic plan developed from retreat
- Develop process to effectively monitor strategic plan progress
- Review management's work related to KU Gap
- Work to be completed by April 2011
  Monitoring will be on-going

EAST KENTUCKY POWER COOPERATIVE

Timelines for 2011

Power Supply & Ownership Alternatives Sub.

- Review and revise Series 300 Board Policies
- Review management and consultant work related to:
  - Diversification of Power Supply Portfolio
  - Transmission studies
  - RTO/ISO evaluations
- Anticipated completion date of July 2011

Timelines for 2011

Upcoming Reports to the PSC

- Next oral report to be given by Governance Committee and Management on January 20, 2011
- Next six month written progress report due April 29, 2011

Big Sandy RECC

Blue Grass Energy Cooperative

Clark Energy Cooperative

Cumberland Valley Electric

Farmers RECC

Fleming-Mason Energy Cooperative

Grayson RECC

Inter-County Energy Cooperative

Jackson Energy Cooperative

Licking Valley RECC

Nolin RECC

Owen Electric Cooperative

Salt River Electric Cooperative

Shelby Energy Cooperative

South Kentucky Rural Electric

Taylor County RECC

Reliable Energy

EKPC meets the members' energy needs for quality and dependability.

Competitive Energy

EKPC's power cost to members is competitive with neighboring utilities.

Member Services

EKPC supports the member systems with services that enhance the value delivered to retail customers.

EKPC exists for the member systems

MINUTES
OF
OPERATIONS, SERVICES & SUPPORT COMMITTEE MEETING
DECEMBER 14, 2010

A regular meeting of the East Kentucky Power Cooperative, Inc. ("EKPC") Operations, Services & Support (OSS) Committee was held at Headquarters Building, 4775 Lexington Road, Winchester, Kentucky, on Tuesday, December 14, 2010, pursuant to proper notice. OSS Committee Chairman Mike Adams called the meeting to order at 10:00 a.m. EST.

The following members of the Committee were present:

Mike Adams	Licking Valley
Danny Divine	Inter-County
Tom Estes	South Kentucky
E. A. Gilbert	Blue Grass
Wayne Stratton	Shelby
Don Shuffett	Taylor
Carol Fraley	Grayson
Bill Prather	Farmers
Chris Perry	Fleming-Mason
Don Schaefer	Jackson
Mickey Miller	Nolin
Mark Stallons	Owen

EKPC staff members present for either all or a portion of the meeting included: President & CEO Tony Campbell; Counsel David Smart; Counsel Mark David Goss; CFO Mike McNalley; Stacy Barker; Frank Oliva; Susan Mefford; and Joe Smothers.

Committee Chairman Mike Adams called the meeting to order.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

OSS INFORMATION AND DISCUSSION ITEMS---

President & CEO Tony Campbell updated the Committee by reviewing the respective positions of Jackson Energy and Owen Electric. P&CEO Campbell indicated that both Systems feel Amendment #3 needs to be addressed as soon as possible to more clearly define rights, obligations, duties and financial responsibilities of EKPC and its Member Systems. EKPC counsel believes that a revision of Amendment #3 is the only practicable solution to this situation. P&CEO Campbell stated that the appropriate Subcommittees and Governance Committee will work together and present revised language to the Board for approval. Discussion followed regarding the need to protect all Members' interests, the mitigation of fixed costs, possible negative circumstances, and the need to investigate options.

[redacted]

Big Sandy RECC

Blue Grass Energy Cooperative

Clark Energy Cooperative

Cumberland Valley Electric

Farmers RECC

Fleming-Mason Energy Cooperative

Grayson RECC

Inter-County Energy Cooperative

Jackson Energy Cooperative

Licking Valley RECC

Nolin RECC

Owen Electric Cooperative

Salt River Electric Cooperative

Shelby Energy Cooperative

South Kentucky Rural Electric

Taylor County RECC

Reliable Energy

EKPC meets the members' energy needs for quality and dependability.

Competitive Energy

EKPC's power cost to members is competitive with neighboring utilities.

Member Services

EKPC supports the member systems with services that enhance the value delivered to retail customers.

EKPC exists for the member systems

B

Board Agenda Item

MARCH

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

FROM: Anthony S. Campbell

DATE: February 18, 2011

SUBJECT: Approval for Owen Electric Cooperative to Purchase 1Mw from NuFrank, Inc. as Per EKPC's Wholesale Contract Amendment #3 Under EKPC Board Policy No. 305 (Executive Summary)

BACKGROUND

Owen Electric Cooperative ("Owen Electric") has presented East Kentucky Power Cooperative, Inc., ("EKPC") with a formal request to purchase 1 Mw over a 10-20 year term directly from NuFranc Energy's ("NuFranc") as proposed in a Purchase Power Agreement beginning in 2011 from the NuFranc solar project in Owen County.

JUSTIFICATION AND STRATEGIC ANALYSIS

The NuFranc, Inc.'s solar project is located on 45 acres approximately 2 miles West of Bavarian Station in Boone County, Kentucky. Owen Electric's request to purchase 1 Mw of Solar Power does not require approval from EKPC's Allocation Committee and it allows for consistency of Amendment #3 of the Wholesale Power Contract with Board Policy 305 and 304. The Amendment calls for allocation of load(s) to any direct purchase.

RECOMMENDATION

The Owen Electric Board of Directors requests that the EKPC Board of Directors ("Board") approve Owen Electric utilizing Amendment #3 of the Wholesale Power Contract for the purchase of 1 Mw from NuFranc, Inc.

ASC:ds:tc

Corrected

Resolution

APPROVAL FOR OWEN ELECTRIC COOPERATIVE TO PURCHASE 1 MW FROM NUFRANC, INC., AS PER EKPC'S WHOLESALE CONTRACT AMENDMENT #3 UNDER EKPC BOARD POLICY NO. 305

Whereas, Owen Electric Cooperative ("Owen Electric") has previously presented East Kentucky Power Cooperative, Inc., ("EKPC") with a formal request to purchase 1 Mw over a 10-20 year term directly from NuFranc Energy's ("NuFranc") as proposed in a Purchase Power Agreement beginning in 2011 from the NuFranc solar project in Owen County which was approved;

Whereas, Owen Electric has also presented EKPC with a second formal request to purchase 1 Mw over a 10-20 year term directly from NuFranc Energy's ("NuFranc") as proposed in a Purchase Power Agreement beginning in 2011 from the NuFranc solar project in Boone County;

Whereas, The NuFranc, Inc.'s solar project is located on 45 acres approximately 2 miles West of Bavarian Station in Boone County, Kentucky;

Whereas, Owen Electric's request to purchase 1 Mw of Solar Power does not require approval from EKPC's Allocation Committee and it allows for consistency of Amendment #3 of the Wholesale Power Contract with Board Policy 305 and 304. The Amendment calls for allocation of load(s) to any direct purchase;

Whereas, Owen Electric's Board of Directors has requested and the EKPC Operations, Services and Support Committee has recommended that the EKPC Board of Directors approve this transaction; now, therefore, be it;

Resolved, That the EKPC Board of Directors hereby approve the Owen Electric Board of Directors request that the EKPC Board of Directors ("Board") approve Owen Electric utilizing Amendment #3 of the Wholesale Power Contract for the purchase of 1 Mw from NuFranc, Inc.

ASC/ds/tc

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

OPERATIONS, SERVICES AND SUPPORT (OSS) COMMITTEE ACTION ITEMS

Approval for Owen Electric to Purchase 1 MW from NuFranc Inc., as Per EKPC's Wholesale Contract Amendment #3 Under EKPC Board Policy No. 305

After review of the applicable information, a motion was made by Mike Adams and, there being no further discussion, passed by the full Board to approve the following:

Whereas, Owen Electric Cooperative ("Owen Electric") has previously presented East Kentucky Power Cooperative, Inc., ("EKPC") with a formal request to purchase 1 Mw over a 10-20 year term directly from NuFranc Energy's ("NuFranc") as proposed in a Purchase Power Agreement beginning in 2011 from the NuFranc solar project in Owen County which was approved;

DRAFT: 6/10/11, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

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 ~~(Schedule 7 Long Term Firm Point to Point)~~ and, except as provided in this Subsection d., ancillary services ~~Schedule 4 (Energy Imbalance Service) and Schedule 11(Loss Compensation Service)~~ 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. ~~In connection with any such transmission service separately purchased by the Member, t~~The following ancillary services needed to deliver any such third party supply or self-supply to the Member's system will be provided to~~, and paid for by~~ the Member ~~,~~ under this contract ~~pursuant to the rates and charges established under Section 4 to this Contract~~: Schedule 1 (Scheduling, System Control and Dispatch Service), Schedule 2 (Reactive Supply and Voltage Control), Schedule 3 (Regulation and Frequency Response Service), Schedule 5 (Operating Reserves – Spinning Reserves) and Schedule 6 (Operating Reserves – Supplemental Reserve Service).

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 of (i) this Amendment, as executed and delivered by the Seller and the Member and (ii) amendments identical to this Amendment to ~~the~~ all of the all-requirements wholesale power contracts between the Seller and each~~all~~ other members of the Seller, as executed and delivered by the Seller and the other members of the Seller.

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, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

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

PROPOSED AMENDMENT 5

Proposed Amendment 5

- Resolves the issue related to monopolizing benefits
- Allows block purchases of energy (Section e.2.iii)
- Clarifies the additional cost
- Clarifies transmission requirements
- Exempts renewable and distributed generation connected to member distribution systems

Proposed Amendment 5

- 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
  - Wholesale power contract provides some ancillary services for third party supplies
- 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

- 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

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

Questions and Discussion

Big Sandy RECC

Blue Grass Energy Cooperative

Clark Energy Cooperative

Cumberland Valley Electric

Farmers RECC

Fleming-Mason Energy Cooperative

Grayson RECC

Inter-County Energy Cooperative

Jackson Energy Cooperative

Licking Valley RECC

Nolin RECC

Owen Electric Cooperative

Salt River Electric Cooperative

Shelby Energy Cooperative

South Kentucky Rural Electric

Taylor County RECC

Reliable Energy

EKPC meets the members' energy needs for quality and dependability.

Competitive Energy

EKPC's power cost to members is competitive with neighboring utilities.

Member Services

EKPC supports the member systems with services that enhance the value delivered to retail customers.

EKPC exists for the member systems

EAST KENTUCKY POWER COOPERATIVE

Audit Committee will convene
Tuesday, August 8, 2011 at
8:00 a.m. (E.D.T.)

July 29, 2011

Board of Directors
East Kentucky Power Cooperative, Inc.

Ladies and Gentlemen:

Notice is hereby given that the Standing Committees of **East Kentucky Power Cooperative, Inc.** will meet on ***Monday, August 8, 2011*** in their appropriate Meeting Rooms at their appropriate times.

Further, notice is hereby given that the Board of Directors meeting will convene on ***Tuesday, August 9, 2011*** at 9:30 a.m. (E.D.T.) for the purposes of considering and taking action on those matters shown on the agenda, to-wit:

AGENDA

~~I.~~ **CALL TO ORDER** - 9:30

~~II.~~ **INVOCATION** - Jim Jacobus

~~III.~~ **ROLL CALL**

~~IV.~~ **ACTION ON PREVIOUS BOARD MINUTES** 1) Elbert 2) Joe Passed

1. Approval of Minutes from Board Meeting on July 12, 2011

~~V.~~ **ADOPTION OF AGENDA** 1) JI - Add: Sale of Kenton Co. Property E.A/ Add: 2) Safety Moment Lonnie Passed

~~VI.~~ [redacted]

[redacted]

~~VII.~~ [redacted]

[redacted]

A

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		Page No.
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	[redacted]	AU2-AU4
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	[redacted]	--
	[redacted]	S2-S21
[redacted]	[redacted]	
	[redacted]	--
	[redacted]	BR2-BR23
~~XI.~~	**GOVERNANCE COMMITTEE ITEMS** Don Shuffett, Chairman	
	~~A.~~ **Board Action Requested**	
	[redacted] Deby	G2-G9
	Deby. Need David's presentation	
	2. Consideration to Approve Proposed Amendment #5 of the Wholesale Power Contract Agreement – SHUFFETT/CREWS	G10-G21
	~~B.~~ [redacted]	G22-G38
[redacted]	[redacted]	
	[redacted]	1-2

B

AUGUST

Board Agenda Item

TO:	East Kentucky Power Cooperative, Inc. Board of Directors
FROM:	Donald Shuffett, Chairman Governance Committee
DATE:	July 29, 2011
SUBJECT:	Approval of Proposed Amendment Number 5 to the Wholesale Power Contract (Executive Summary)

Background

During discussion between East Kentucky Power Cooperative, Inc. ("EKPC") staff and some of EKPC's members concerning the possible use of Amendment Number 3 to the EKPC Wholesale Power Contract to allow the members to purchase some of their power supply from non-EKPC sources, it became apparent that Amendment 3, which was drafted in 2003, needed to be amended to address various issues that exist in the current power supply environment.

EKPC staff brought this issue to the Power Supply and Ownership Alternatives Subcommittee of the Governance Committee and was directed by the Subcommittee to draft language that would address the issues with Amendment 3. This language eventually became known as Proposed Amendment Number 5 to the Wholesale Power Contract.

EKPC staff has discussed the concepts and provisions involved in Proposed Amendment 5 with the membership at various times and in various venues, including a special meeting with the member managers, and after considering the comments of the members, came up with final language which was presented to the Governance Committee for approval at its July meeting. The Governance Committee approved Amendment 5, and it was presented to the EKPC Board of Directors ("Board") as an informational item at the July meeting with the Board being advised that they would be asked to vote on Amendment 5 at the August meeting.

Justification and Strategic Analysis

The adoption of Amendment 5 will address the issues arising from the current power supply environment and will allow members desiring to do so to obtain power supply from non-EKPC sources in a manner that is fair to the entire membership. Amendment 5 will and should remain consistent with RUS guidelines and policy.

AUGUST

Board Agenda Item

Recommendation

Management and the Governance Committee recommend that the Board approve Amendment 5 for execution by EKPC and presentation to each member for execution.

ASC/sg/tkc

DRAFT: 6/10/11, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

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

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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.

DRAFT: 6/10/11, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

d. Transmission services and, except as provided in this Subsection d., 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. The following ancillary services needed to deliver any such third party supply or self-supply to the Member's system will be provided to the Member under this contract: Schedule 1 (Scheduling, System Control and Dispatch Service), Schedule 2 (Reactive Supply and Voltage Control), Schedule 3 (Regulation and Frequency Response Service), Schedule 5 (Operating Reserves – Spinning Reserves) and Schedule 6 (Operating Reserves – Supplemental Reserve Service).

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 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

DRAFT: 6/10/11, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

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

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 <u>Schedule B</u> 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 <u>Schedule B</u> 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 of (i) this Amendment, as executed and delivered by the Seller and the Member and (ii) amendments identical to this Amendment to all of the all-requirements wholesale power contracts between the Seller and each other member of the Seller, as executed and delivered by the Seller and the other members of the Seller.

DRAFT: 6/10/11, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

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, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

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

AUGUST

Resolution

APPROVAL OF PROPOSED AMENDMENT NUMBER 5 TO THE WHOLESALE POWER CONTRACT

Whereas, During discussion between East Kentucky Power Cooperative, Inc. ("EKPC") staff and some of EKPC's members concerning the possible use of Amendment Number 3 to the EKPC Wholesale Power Contract to allow the members to purchase some of their power supply from non-EKPC sources, it became apparent that Amendment 3, which was drafted in 2003, needed to be amended to address various issues that exist in the current power supply environment;

Whereas, EKPC staff brought this issue to the Power Supply and Ownership Alternatives Subcommittee of the Governance Committee and was directed by the Subcommittee to draft language that would address the issues with Amendment 3. This language eventually became known as Proposed Amendment Number 5 to the Wholesale Power Contract;

Whereas, EKPC staff has discussed the concepts and provisions involved in Proposed Amendment 5 with the membership at various times and in various venues, including a special meeting with the member managers, and after considering the comments of the members, came up with final language which was presented to the Governance Committee for approval at its July meeting. The Governance Committee approved Amendment 5, and it was presented to the EKPC Board of Directors ("Board") as an informational item at the July meeting with the Board being advised that they would be asked to vote on Amendment 5 at the August meeting;

Whereas, The adoption of Amendment 5 will address the issues arising from the current power supply environment and will allow members desiring to do so to obtain power supply from non-EKPC sources in a manner that is fair to the entire membership. Amendment 5 will and should remain consistent with RUS guidelines and policy; now, therefore, be it

Resolved, That the Board approve Amendment 5 for execution by EKPC and presentation to each member for execution.

MINUTES
OF
BOARD GOVERNANCE COMMITTEE
July 11, 2011

Regular Committee Meeting

A regular meeting of the Board Governance Committee of East Kentucky Power Cooperative, Inc. was held at East Kentucky Power Cooperative, Inc., 4775 Lexington Road, Winchester, Kentucky, on Thursday, July 11, 2011, at 9:30 a.m., EDT. The following members of the Committee were present:

Don Shuffett (D) – Chairman	Farmers RECC
Ken Arrington (D)	Grayson RECC
Landis Cornett (D)	Jackson EC
Tom Estes (D)	South Kentucky RECC
Hope Kinman (D)	Owen EC
Allen Anderson (M)	South Kentucky RECC
Paul Embs (M)	Clark EC
Carol Ann Fraley (M)	Grayson RECC
Debbie Martin (M)	Shelby EC

EKPC staff members present for all or part of the meeting included Tony Campbell, Stacy Barker, Don Mosier, David Crews, Michelle Carpenter and Roger Cowden. Gwyn Willoughby assisted with the minutes. General Counsel David Smart and Monica Schmidt of NRECA were also in attendance.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted] stated [redacted]

[redacted]

[redacted]

Review Revised Amendment No. 5 and Determine Next Steps

David Crews led the Committee through a handout of revised Amendment No. 5. Mr. Crews distributed a draft letter that, upon Board approval, will be sent to Member Managers. A draft of the Amendments No. 5 was also distributed. Mr. Crews stressed that for Amendment No. 5 to become effective all Members have to be in agreement.

A motion was made by Tom Estes, seconded by Landis Cornett to present the draft of the Sutherland letter and the draft of Amendment No. 5 to the Board as an informational item at the July Board Meeting and for a vote in the August Board Meeting.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted] Copy of Revised Amendment No. 5. Handouts made available at the meeting were as follows: Copy of PowerPoint Presentation Regarding Amendment No. 5, Draft of Proposed Amendment No. 5 and a Proposed Memorandum from EKPC to Member Managers Regarding Amendment No. 5.

Chairman, Don Shuffett, adjourned the meeting at 1:20 p.m.

Hope Kinman, Secretary

Approved: ______________________

Date: ______________________

SUMMARY OF AMENDMENT 3 AND PROPOSED AMENDMENT 5

OVERVIEW OF AMENDMENT 3

- 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
- Amendment 3 elections are no longer part of the Wholesale Power Contract
- Requires 90 days notice from Member for non-EKPC supply to serve a load if it has an average coincident peak demand ≤ 5 MW
- Requires 18 months notice from Member for non-EKPC supply to serve a load ≥ 5 MW
- Once a load is returned to EKPC system, may not be served by non-EKPC supply again
- Non-EKPC supply for a new service territory is 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 3

- Only allows non-EKPC supply for a specific load (non-EKPC supply for a percentage of a Member's total load is not permitted)
- Non-EKPC supply must follow load shape of specified load
  - 7 X 24 energy blocks are 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
- 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

OVERVIEW OF PROPOSED AMENDMENT 5

- Adds flexibility in the 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
- Amendment No. 5 requires compliance with certain fundamental principles and policies
    - Fundamental principles include:
        - Electing Member is responsible for all stranded costs and additional costs
        - Each Member controls use of its 5%
        - Load served by Amendment No. 5 from off system supplies obtain transmission service through the OATT
- Member can elect standard market products as supply options
- 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
- Current Amendment No. 3 resources are exempt from Stranded Cost
- Renewable/Distributed Generation less than 2.5 MWs are not subject to stranded cost recovery.

Big Sandy RECC

Blue Grass Energy Cooperative

Clark Energy Cooperative

Cumberland Valley Electric

Farmers RECC

Fleming-Mason Energy Cooperative

Grayson RECC

Inter-County Energy Cooperative

Jackson Energy Cooperative

Licking Valley RECC

Nolin RECC

Owen Electric Cooperative

Salt River Electric Cooperative

Shelby Energy Cooperative

South Kentucky Rural Electric

Taylor County RECC

Reliable Energy

EKPC meets the members' energy needs for quality and dependability.

Competitive Energy

EKPC's power cost to members is competitive with neighboring utilities.

Member Services

EKPC supports the member systems with services that enhance the value delivered to retail customers.

EKPC exists for the member systems

EAST KENTUCKY POWER COOPERATIVE

September 2, 2011

Board of Directors
East Kentucky Power Cooperative, Inc.

Ladies and Gentlemen:

There will be no Standing Committee Meetings on September 8th, 2011.

Notice is hereby given that the Board of Directors meeting will convene on ***Monday, September 12, 2011*** at 9:30 a.m. (E.D.T.) for the purposes of considering and taking action on those matters shown on the agenda, to-wit:

AGENDA

I. **CALL TO ORDER**

II. **INVOCATION** Chris Perry

III. **ROLL CALL**

IV. **ACTION ON PREVIOUS BOARD MINUTES** 1) E.A. 2) Hope passed

1. Approval of Minutes from Board Meeting on August 9, 2011

V. **ADOPTION OF AGENDA** – 1) Jon E. 2) Mike Q. /passed

VI. [redacted]

[redacted]

VII. [redacted]

[redacted]

Safety [redacted]

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P.O. Box 707, Winchester,
Kentucky 40392-0707

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

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	[redacted]	S2-S12
[redacted]	[redacted]	
	[redacted]	--
	[redacted]	BR2-BR16
~~XI.~~	**GOVERNANCE COMMITTEE ITEMS** Don Shuffett, Chairman	
	~~A.~~ **Board Action Requested**	
	[redacted]	G2-G6
	[redacted]	G7-G18
	~~3.~~ Consideration of the Data Request of Owen Electric, Jackson Energy and Salt River Electric Related to their Independent Consulting Firm's "Fresh Look" of Proposed Amendment #5 of the Wholesale Power Contract Agreement - SHUFFETT	--
	[redacted]	G19-G23
[redacted]	[redacted]	
	[redacted]	1-2
	[redacted]	3-4

1) Don Shuffett 2) Passed

1) Don. D. Passed

1) Lonnie 2) E.A. passed

1) Don + 2) Mike passed

B

MINUTES
OF
BOARD GOVERNANCE COMMITTEE
August 8, 2011

Regular Committee Meeting

A regular meeting of the Board Governance Committee of East Kentucky Power Cooperative, Inc. was held at East Kentucky Power Cooperative, Inc., 4775 Lexington Road, Winchester, Kentucky, on Monday, August 8, 2011, at 9:00 a.m., EDT. The following members of the Committee were present:

Don Shuffett (D) – Chairman	Taylor County RECC
Ken Arrington (D)	Grayson RECC
Landis Cornett (D)	Jackson EC
Tom Estes (D)	South Kentucky RECC
Hope Kinman (D)	Owen EC
Allen Anderson (M)	South Kentucky RECC
Carol Ann Fraley (M)	Grayson RECC
Debbie Martin (M)	Shelby EC

EKPC staff members present for all or part of the meeting included Tony Campbell, Stacy Barker, David Crews, Michelle Carpenter and Roger Cowden. Gwyn Willoughby assisted with the minutes. General Counsel David Smart, Monica Schmidt of NRECA, and Mark Stallons and Alan Ahrman of Owen Electric Cooperative were also in attendance.

ACTION ITEMS---

Approval of the July 11, 2011 Meeting Minutes

A motion was made by Hope Kinman, seconded by Tom Estes and passed to approve the July 11, 2011 minutes as emailed to each committee member.

Safety Moment

Stacy Barker started the meeting with a safety moment regarding avoiding deer versus auto collisions.

[redacted]

[redacted]

[redacted]

[redacted]

Update on Revised Amendment No. 5

David Crews updated the Committee on the current status of Amendment No. 5. Questions from a few Members have been addressed since Revised Amendment No. 5 was presented to the Board at the July meeting. EKPC will also provide an example of how the Amendment No. 5 will be applied to the Members within two weeks. Any questions or comments received will be forwarded to all Members so that everyone is kept up to date on the status of Amendment No. 5. EKPC staff expects to attend several Member System Board meetings in the next couple of months to present the Amendment No. 5 and answer any questions the Boards may have.

Chairman Shuffett recommended, and the Committee agreed, to postpone any vote on Amendment No. 5 until the October Governance Committee meeting with an anticipated vote by the Board in November. Mr. Shuffett will communicate this revised timeline at the next Board meeting.

[redacted]

[redacted]

MINUTES
OF
STRATEGIC ISSUES COMMITTEE MEETING
SEPTEMBER 9, 2013

REGULAR COMMITTEE MEETING

The regular meeting of the East Kentucky Power Cooperative, Inc. ("EKPC") Strategic Issues Committee was held at Headquarters Building, 4775 Lexington Road, Winchester, Kentucky, on Monday, September 9, 2013, pursuant to proper notice. Strategic Issues Committee Chairman Lonnie Vice called the meeting to order at 1:29 p.m. (EST).

The following members of the Committee were present:

Lonnie Vice	Fleming Mason EC
William Shearer	Clark EC
O. Landis Cornett	Jackson Energy
A. L. Rosenberger	Nolin RECC
Jody Hughes	Blue Grass ECC
Ken Arrington	Grayson RECC
Mark Stallons	Owen Electric
Mike Williams	Blue Grass ECC

The following members of the Committee were present via Webex and/or teleconference:

Jim Jacobus	Inter-County Energy

EKPC staff members present for either all or a portion of the meeting included Tony Campbell, P&CEO; Don Mosier, EVP&COO; Mike McNalley, EVP&CFO; David Crews; Craig Johnson; Denver York; Jerry Purvis; Barry Mayfield; Gary Stansberry; Steve McClure; Joe Smothers; Julie Tucker; Darrin Adams; Terri Combs; Kim Fyffe; Brenda Bowen; Corporate Counsel Sherman Goodpaster; and General Counsel David Smart.

ACTION ITEMS---

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Review and Approve MOU and Submit Recommendation to the Board for Final Review and Approval

Senior Vice President, Power Supply David Crews updated as to the status of the execution of the proposed Memorandum of Understanding ("MOU"). He reported 14 of the 16 Members have approved the MOU, but that the MOU cannot be ratified until all 16 Members have approved. Initially, the Public Service Commission ("PSC") allowed a period of forty-five (45) days to obtain the approval of all 16 Members. That period will soon expire and the status of the MOU must be reported to the PSC. EKPC represented to the PSC that it supported the MOU. After further discussion, it was the recommendation of EKPC Management that the Committee approve the submission of the MOU to the full Board for further review and consideration. While the MOU is not enforceable until all 16 Member Owner Boards approve the MOU, EKPC's Board following through and approving the MOU communicates Board support of the MOU.

David Smart

From: Franzoni, Dorothy <dorothyfranzoni@eversheds-sutherland.com>
Sent: Monday, April 23, 2018 3:02 PM
To: David Smart
Subject: FW: Amendment #5

David – This is David Crews responding to some questions raised by a member CEO regarding the Amendment 5 that was sent to members for approval.

Dorothy

Dorothy Black Franzoni | Partner | T: +1.404.853.8489

From: David Crews <David.Crews@ekpc.coop>
Sent: Friday, August 5, 2011 3:21 PM
To: Mark Stallons <mstallons@owenelectric.com>
Cc: CBJ523@aol.com; Joe Linxwiler <jnl@linxwiler.com>; Don Schaefer <donschaefer@jacksonenergy.com>; Larry Hicks <LHicks@srelectric.com>; Rebecca Witt <rwitt@owenelectric.com>; Mike Cobb <mcobb@owenelectric.com>; James Bridges <jbridges@owenelectric.com>; hkinman@owenelectric.com; Sherman Goodpaster <sherman.goodpaster@ekpc.coop>; Tony Campbell <tony.campbell@ekpc.coop>; David Smart <david.smart@ekpc.coop>; Franzoni, Dorothy <dorothy.franzoni@sutherland.com>; Don Mosier <Don.Mosier@ekpc.coop>; Denver York <denver.york@ekpc.coop>; shuffett@windstream.net; Mike McNalley <Michael.McNalley@ekpc.coop>; Ann Wood <ann.wood@ekpc.coop>; Isaac Scott <isaac.scott@ekpc.coop>
Subject: RE: Amendment #5

At this point, Amendment No. 5 is before our Board and in the hands of the Governance Committee. I can't speak for either. I attempted to answer your questions to the best of my ability without speaking for the Governance Committee. See the green text below in the body of your email.

I do want to assure you that EKPC participates in the bi-lateral and organized markets to optimize the EKPC's generation fleet. If we have excess capacity or energy, we attempt to sell it to mitigate EKPC's fixed and variable costs on behalf of its members. If EKPC is short capacity or energy, we make purchases on behalf of our members. I am in the process of developing reports that show the effectiveness of these activities now.

Amendment No. 5 makes provisions and distinctions for renewable and distributed generation projects that Amendment No. 3 did not. If Amendment No. 5 isn't successful, our problems in this area don't go away.

See you next week. Have a good weekend.

From: Mark Stallons [mailto:mstallons@owenelectric.com]
Sent: Wednesday, August 03, 2011 12:02 PM
To: David Crews
Cc: CBJ523@aol.com; Joe Linxwiler; Don Schaefer; Larry Hicks; Rebecca Witt; Mike Cobb; James Bridges; hkinman@owenelectric.com
Subject: Amendment #5

David:

I have reviewed the proposed amendment #5 and have the following concerns:

First, it is very difficult from the language in the agreement to fully grasp the positive and negative impacts the agreement would have when applied to a real world example. To assist Owen's board, legal counsel, and executive staff in determining our position on the amendment as written please provide a very detailed example calculation under the proposed Amendment 5 so that we can examine carefully. As a result we may conclude that the proposed amendment needs much more detail as to the calculation of the alleged stranded costs.

We can prepare an example of the stranded cost allocation for you. For simplicity, I suggest we use 10 MWs.

Second, has EKPC undertaken any market price discovery of long-term capacity values. Amendment 5 appears to assume that EKPC cannot greatly mitigate the "stranded costs" by sales to non-members including capacity sales as well as short-term opportunity sales. In a time when folks are finding it very difficult to complete new coal units, reasonably efficient existing coal capacity can be very valuable.

We have not attempted to model how the sale of excess capacity might mitigate stranded costs. The direction of the Governance Committee and Power Supply Committee has been to focus on preparing an document that resolves the equity issues that arise from Amendment No. 3.

Amendment No. 5 provides for a credit to the member for the value of pushing a new resource further into the future.

Thirdly, would EKPC consider allowing EKPC's members to market some of their capacity off system and use the revenues to offset the claimed stranded costs of EKPC.

In 2 and 3, there is a concept that threads through the questions that seems to advocate that either EKPC or a Member should remarket the capacity freed up resulting from a third party supply to reduce the stranded cost to the member. I don't see a way that this can work with the contract structure we currently have. Our contract and the EKPC power supply fleet were designed to meet the collective retail needs of all of EKPC's members. It wasn't designed to pick up and drop off additional wholesale loads at random points in time. The most practical way to do this is to adopt the Oglethorpe model, which divides up the generation fleet, and puts the power supply planning and daily management responsibilities onto each member's shoulders. Attempting to figure out what portion of the system is available to remarket as the result of a third party supply would be very complicated and not very practical. If this is the direction you are advocating, the board should have discussions about assigning out the responsibility for our current generations fleet.

The answer from our attorneys related to an assignment of capacity to a particular member is: The members are responsible for paying rates sufficient to cover all the costs of EKPC's assets, but have no entitlement to claim any portion of the system capacity as "theirs".

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

DRAFT: 6/10/11, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

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 ~~(Schedule 7 Long Term Firm Point to Point)~~ and, except as provided in this Subsection d., ancillary services ~~Schedule 4 (Energy Imbalance Service) and Schedule 11(Loss Compensation Service)~~ 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. ~~In connection with any such transmission service separately purchased by the Member, t~~TThe following ancillary services needed to deliver any such third party supply or self-supply to the Member's system will be provided to~~, and paid for by~~ the Member ~~,~~ under this contract ~~pursuant to the rates and charges established under Section 4 to this Contract:~~ Schedule 1 (Scheduling, System Control and Dispatch Service), Schedule 2 (Reactive Supply and Voltage Control), Schedule 3 (Regulation and Frequency Response Service), Schedule 5 (Operating Reserves – Spinning Reserves) and Schedule 6 (Operating Reserves – Supplemental Reserve Service).

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 of (i) this Amendment, as executed and delivered by the Seller and the Member and (ii) amendments identical to this Amendment to ~~the~~ all of the all-requirements wholesale power contracts between the Seller and each~~all~~ other members of the Seller, as executed and delivered by the Seller and the other members of the Seller.

DRAFT: 6/10/11, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

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, as modified by D. Crews on 7/8, and further modified by D. Franzoni in 7/11/11

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

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.

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[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 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

Jeannie Jones

From:	David Smart
Sent:	Monday, April 23, 2018 5:51 PM
To:	Jeannie Jones
Subject:	Fwd: FW_ AMENDMENT NO 5 TO WHOLESALE POWER CONTRACT (2) (David Crews).MSG
Attachments:	FW: AMENDMENT NO 5 TO WHOLESALE POWER CONTRACT (2); ATT00001.htm

Pls print & put in my chair

Sent from my iPhone

Begin forwarded message:

> **From:** "Franzoni, Dorothy" <dorothyfranzoni@eversheds-sutherland.com>
> **Date:** April 23, 2018 at 2:53:05 PM EDT
> **To:** "david.smart@ekpc.coop" <david.smart@ekpc.coop>
> **Subject: FW_ AMENDMENT NO 5 TO WHOLESALE POWER CONTRACT (2) (David Crews).MSG**
>
> David – This was the immediate outcome of the April 2011 workshop in Bowling Green (you sent me the final ppt for that earlier today).
>
> Dorothy
>
> Dorothy Black Franzoni | Partner | Eversheds Sutherland (US) LLP
>
> T: +1.404.853.8489
> Biography | vCard
>
> www.eversheds-sutherland.com
>
> **Eversheds Sutherland**
> Client Commitment. Innovative Solutions. Global Service.
>
>

Jeannie Jones

From:	David Crews
Sent:	Friday, April 29, 2011 11:49 AM
To:	Allen Anderson; Allen Anderson (E-mail); Barry Myers (E-mail); Bill Prather; Carol Fraley; Chris Perry; David Estepp; Debbie Martin; Don Schaefer (E-mail); Jim Jacobus (E-mail); Kerry Howard; Larry Hicks (E-mail); Mark Stallons (E-mail); Mickey Miller (E-mail); Mike Williams; Paul Embs; Ted Hampton
Cc:	Tony Campbell; Don Mosier; Denver York; forward to davismart at FTB; Franzoni, Dorothy
Subject:	FW: AMENDMENT NO 5 TO WHOLESALE POWER CONTRACT (2)
Attachments:	AMENDMENT NO 5 TO WHOLESALE POWER CONTRACT (2).doc

I have attached the latest draft of Amendment 5. This draft aligns with the concepts we discussed last Wed. at our Amendment 3 workshop. While there was not agreement on the issue of stranded cost, the direction came through that stranded cost needed to be assigned directly as opposed to being socialized. We will be working on stranded cost narrative next week. If you have any ideas on how you think we should address stranded cost, please give me a call.

We will discuss this draft and the comments we receive back from you at the next Power Supply and Ownership Alternative Committee.

Thanks

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 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, 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 shall apply:

a. Except as specifically provided in Subsections h. and m. below, the Member shall be responsible for all Stranded Costs and all additional costs incurred by the Seller as a result of

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such election. For purposes of this Section 1, "Stranded Costs" shall mean **[definition to be developed.]**

b. The payment period for Stranded Costs will be **[to be developed.]**

c. 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 d., 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.

d. 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.

e. 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 must separately purchase transmission and ancillary services from the Seller pursuant to the Seller's Open Access Transmission Tariff.

f. 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 purchases from the Seller energy imbalance service and such other transmission and ancillary services as are required pursuant to Subsection e. 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.

g. 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 Members 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.

h. 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.

i. 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.

j. 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 year (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 for the applicable load from the Seller. All such notices must comply with the Seller's policies and procedures. **[To address fairness concerns to long-term retail customers within the EKPC member footprint, we propose to include provision that requires EKPC board approval to be obtained before new service territory described in Subsection g(iii) is brought under the Wholesale Power Contract.]**

k. Upon the effective date of the Member's cancellation of any such election under this contract, the applicable load shall 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.

l. 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.

m. 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 Section 1 of this contract 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.

n. 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 shall be treated as a 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.

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

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: 4/22/11

**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, Inc.

Financial Statements

As of and for the Years Ended
December 31, 2017 (Unaudited) and 2016

EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy® Cooperative

Member system update

Overview of Amendment 3 and MOU

- Amendment 3 to the Wholesale Power Agreement and the MOU allow:
    - Each member may elect to use an alternate power source for up to 15% of their load
    - However all members making an election may not exceed 5% of EKPC's load

- Notice must be provided before the load leaves the EKPC system (or new generation source comes on-line)
    - This allows EKPC to plan for the load "loss" and begin to take actions to mitigate the loss

- Notice must be provided before a load returns to the EKPC system
    - This allows EKPC to plan for the load to return and begin to develop resources to serve the load

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15% and 5% Limits

Summary Table

Owner-Member Cooperative	Member 15% Limit	5% Limit	Elected	Proportionate Remainder
Big Sandy	11.1	3.7		1.9
Blue Grass	55.9	18.6		9.0
Clark	20.4	6.8		3.3
Cumberland Valley	20.5	6.8		3.3
Farmers	19.6	6.5	6.5	0.0
Fleming Mason	28.3	9.4	1.4	3.9
Grayson	10.8	3.6		1.7
Inter-County	23.2	7.7		3.8
Jackson	42.7	14.2	14.1	0.1
Licking Valley	11.3	3.8	0.3	1.7
Nolin	32.3	10.8		5.2
Owen	64.0	21.3	21.3	0.0
Salt River	44.2	14.7	14.7	0.0
Shelby	16.8	5.6		2.7
South Kentucky	61.9	20.6	58.0	1.9
Taylor	22.8	7.6		3.7
Systems' total		161.9		
EKPC Limit		**158.5**	**116.3**	**42.2**

As of February 8, 2018

- Although each member can elect up to 15% of their load, the total of all members cannot exceed 5% of EKPC's load.
- EKPC's limit is 158.5 MW
- Members have provided notice for 116.3 MW
- Each remaining member can take up to their 5% until the balance (42.2 MW) is gone

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Financial Impact and Cost Shifting

Base Case: Each Owner-Member exercises exactly 5%, resulting in 158.5 MW leaving EKPC. Assuming **100% load factor** the load loss is approximately 1.4 million MWh and up to $90 million annual revenue

- FAC: Dollars reduced by the avoided fuel and purchased power; $/MWh unchanged

- ES: No change in the total dollars being recovered or in the allocation to each system

- Base Rates: Would increase by the amount of unmitigated fixed costs and margin embedded in the $90 million lost revenue, estimated at up to $45 million

- EKPC Margin Allocation: Would change based on the mix of B, C, G and E load in each system

Financial Impact and Cost Shifting

<u>SKRECC Notice</u>: SKRECC notices 58 MW at **100% load factor**, resulting in load loss of 508,000 MWh and about $30 million lost revenue

FAC: Dollars reduced by the avoided fuel and purchased power; $/MWh unchanged

ES: $4.4 million reallocated, $0.3 million to SKRECC and $4.1 million to all other systems

Base Rates: Up to $13 million fixed costs and margin shifted. Initially reduces EKPC margin; after mitigation, base rate case re-allocates remainder to all systems based on cost of service

EKPC Margin Allocation: If EKPC margin is unchanged, reduces SKRECC allocation by approximately $2 million, and increases margin allocation to all other systems accordingly (2016 data)

Financial Impact and Cost Shifting

Other Notices: Several other systems have given notice for varying amounts. If all 15 systems gave notice for their proportionate share of the 15%, then the net effect would be the equivalent of 37.4 MW (the amount of SKRECC's notice in excess of 5%):

ES: $2.64 million shifted from SKRECC to all other systems

Base Rates: $8.4 million potential increase in base rate case, reduced by any mitigation

EKPC Margin Allocation: Uncertain, depends on rate class mix (margin generated) by each system

To the extent that some owner-members "notice" more than their proportionate share of the remainder, i.e., notice 5%, they will shift some cost to all other systems

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Financial Impact Big Picture

EKPC's system marginal cost (dispatch cost) for high load factors is equivalent to Spurlock 1 - 4 at less than $25/MWh

A power purchase above this price will increase costs somewhere in the system because

EKPC's fixed costs cannot be avoided

A purchase above our marginal cost is on its face more expensive than the generation or purchases it displaces

Amendment three may allow one or a few systems to benefit but only at the expense of all other systems which bear the shifted costs

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MOU Cost Options Least to Highest

- All Owner-Members do nothing
- South Kentucky spreads its entire deal to all systems (perhaps through EKPC)
- South Kentucky does 5% and remaining South Kentucky contract is spread to the remaining Owner-Members
- South Kentucky does 15%, and a run on the bank takes remaining 80 MW, plus 40 MW done by EKPC to help those left out

Financial Impact Big Picture

- EKPC's energy delivery can be thought of as:
- provided by PJM market energy purchases
- which are protected by physical hedges at
- low prices (Spur 1, 2, 3, 4),
- intermediate prices (Cooper 1, 2 and Smith 9, 10), and
- high prices (remaining natural gas peakers at $3.50 gas or above)
- These physical hedges are paid for in base rates and protect owner-members from significant market price "excursions"

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Financial Impact Big Picture

- Although intuitively we want to think of SKRECC's 58MW transaction allowing EKPC to avoid high-priced production, in fact the 100% load factor suggests it would replace our lowest cost units (which run nearly all the time).

- But EKPC's generation will dispatch in PJM as it always has, based on economics, not EKPC's load, and still incur the fuel and emissions expenses
- EKPC's purchases to serve load will decline overall, and become more "peaky" with the loss of 58MW base load

- The average PJM LMP price paid by EKPC will remain below the SKRECC purchase price until natural gas peakers in PJM return to being the marginal unit (CC is now)
- When that happens, all Spurlock and Cooper units are running, providing a price cap to EKPC members

- The 100% load factor means EKPC has to mitigate 508,000 MWh, about double what is expected under A3

EKPC Mitigation - Initial Points

Important to remember, or understand, that EKPC operates in PJM as essentially two business units

- All owner-members' load requirements (with exception of the noticed PPA purchases by owner-members) are purchased in the day ahead market, and balanced in real-time
- All EKPC generation, regardless of A3/MOU, will continue to be bid in the day ahead and cleared based on PJM's dispatch model, or in the case of Spurlock, on a "must run" basis to minimize cycling

The importance of EKPC's fleet does not change as a result of these discussions

- Spurlock 1 – 4 are always "in the money" on a 24 hour basis, and much lower variable cost than any market transaction achievable
- Cooper 1 – 2 primarily serve as a price hedge and receive PJM capacity payments, as well as vital for reliability during the Polar Vortices Smith, Bluegrass can be viewed similarly as Cooper
- Satisfy PSC precedent set in Polar Vortex 1.0 – must have steel on the ground to meet critical peak load needs

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EKPC Mitigation Options

First, we have no urgency to act and have time to develop strategy

- Excess capacity will be sold in PJM auctions including upcoming BRA for 21/22 year
- Energy will be procured in the day ahead market for all remaining load needs

General mitigation approach is to maximize returns for both capacity and energy sales

- Seek to "hedge" the locked in losses that result from the purchases and lower redistribution impacts
- Adjusted for risk to budgeted margins

Option 1: Do nothing, continue to bid or self-schedule generation as we do now and collect the hourly market price & auction's capacity prices

- Most flexible and guarantees higher of cost or market
- Captures high value hours in winter & summer, otherwise foregone if sell bilaterally
- Can grow margins as market oversupply catches up with demand, and it will
- Most risk to budgeted margins

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EKPC Mitigation Options

Option 2: Sell forward beginning June 1, 2019 the amount of A3/MOU purchases

- Locks in a substantial loss over any term to market which is $30 for 100% load factor on average next several years
- Least flexible, but locks in budgeted margins
- Foregoes longer term rises in price of capacity and energy

Option 3: Adopt merchant power's approach to managing long positions

- Layer in hedges over time much like we do coal purchases, that way we lock in opportunistic sales that roll off over time in an orderly fashion (1 – 5 years)
- Limit length of hedges using standard market products so as not to forego future price spikes
- Authorize ACES to seek traditional load following products for munis and other cooperatives to capture higher market values – can selectively do over much longer terms

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EKPC Mitigation Options

Option 3a: Non-traditional approach – merchant power "plus"

- Execute Option 3 strategy plus...
- Create a new entity authorized to buy and sell from EKPC at wholesale "market-based rates"
- Creates forward sales opportunities to PJM deregulated, retail choice states like Ohio at above average load factors (C&I mainly)
- Staff have experience in establishing and managing this type of structure

A combination of the above approaches will capture price movements while serving to hedge "margin" expectations

As always, seek and implement wise cost reductions

Requires prudent evaluation of early asset retirements

EKPC Mitigation Options

Amendment 3 resulted from difficulties in extending the wholesale power agreements, which was necessary to build needed capacity. A3 was poorly written, so we all eventually agreed to the MOU

The structure of A3 and the MOU allows owner-members to get a disproportionate share of EKPC's available load, which results in shifting EKPC's fixed costs to the other owner-members (ES is immediate)

Even if all owner-members took 5%, there would be a cost increase (in effect owner members are adding another hedge on top of the existing hedges)

EKPC will evaluate all options for mitigating the lost load (capacity and energy) including sales of energy and capacity and reduction in costs

Remaining costs will be recovered in the next base rate case