

**MEMORANDUM OF UNDERSTANDING AND AGREEMENT
REGARDING ALTERNATE POWER SOURCES**

This Memorandum of Understanding and Agreement (“MOU&A”) is entered into and effective as of this 23 day of July, 2015, by and between East Kentucky Power Cooperative, Inc. (“EKPC”), and each of the following Member Distribution Cooperatives (also referred to herein as “Owner Member”):

Member Distribution Cooperatives

Big Sandy Rural Electric Cooperative Corporation
Blue Grass Energy Cooperative Corporation
Clark Energy Cooperative, Inc.
Cumberland Valley Electric
Farmers Rural Electric Cooperative Corporation
Fleming-Mason Energy Cooperative
Grayson Rural Electric Cooperative Corporation
Inter-County Energy Cooperative Corporation
Jackson Energy Cooperative Corporation
Licking Valley Rural Electric Cooperative Corporation
Nolin Rural Electric Cooperative Corporation
Owen Electric Cooperative, Inc.
Salt River Electric Cooperative Corporation
Shelby Energy Cooperative, Inc.
South Kentucky Rural Electric Cooperative Corporation
Taylor County Rural Electric Cooperative Corporation

Factual Recitals

0.1 Each Owner Member is an electric cooperative, organized under the laws of the State of Kentucky, engaged in the business of supplying and distributing electric power and energy to its members within a certain service area, for which business the Owner Member operates an electric distribution system, among other operations.

0.2 EKPC is a generation and transmission cooperative corporation, organized under the laws of the State of Kentucky, which is owned by its Owner Members, which are certain electric cooperatives operating in the State of Kentucky (“Owner Members”).

0.3 EKPC and each Owner Member are parties to a Wholesale Power Contract, dated October 1, 1964, as amended, pursuant to which (among other things) EKPC sells and delivers to that Owner Member, and that Owner Member purchases and receives, electric power and energy

required for the operation of the Owner Member's electric system. Such Wholesale Power Contracts are identical in all material respects, except for the identification of the respective Owner Member that is a party to each such agreement. A reference herein to "**Wholesale Power Contract**" refers to each and every such agreement.

0.4 As of October 23, 2003, each Wholesale Power Contract was amended by the execution of that certain amendment designated and known as "**Amendment No. 3**" thereto, to provide, among other things, for the obtaining by the subject Owner Member of electric power and energy from sources other than EKPC for use in operating the Owner Member's electric system, subject to certain limitation and required procedures set forth therein. Except for the identification of the respective Owner Member that is a party to each such Amendment No. 3, all of such amendments are identical. A reference herein to "**Amendment No. 3**" refers to each and every such amendment.

0.5 EKPC and certain Owner Members have, in the past, disagreed on the interpretation of some provisions of Amendment No. 3 and, therefore, to the Wholesale Power Contract as amended thereby.

0.6 The Owner Members each have a keen interest in pursuing or investigating opportunities to develop or otherwise obtain and use sources of electric power and energy other than EKPC. Such non-EKPC sources are hereinafter referred to as "**Alternate Sources**" and further defined in Section 2(A) below.

0.7 EKPC and each Owner Member each desire to avoid litigation over the provisions of the Wholesale Power Contract that pertain to Alternate Sources, and thereby avoid the costs and uncertainty of such litigation.

NOW THEREFORE, in consideration of the mutual covenants, understandings, and undertakings set forth herein, each of the Owner Members and EKPC, agree as follows:

Understandings, Stipulations, and Agreements

1. Term

(A) This MOU&A shall become effective on the date first written above and shall continue in effect until the termination of the Wholesale Power Contract. If the Wholesale Power Contract between EKPC and one of the Owner Members terminates before the other Wholesale Power Contracts, then this MOU&A shall terminate with respect to that Owner Member, but shall remain in effect with respect to the other Owner Members.

2. Scope

(A) The purpose of this MOU&A is to memorialize EKPC's and the Owner Members' mutually agreed interpretation of Amendment No. 3 with respect to Alternate Sources. Except as provided in Section 2(B), an "**Alternate Source**" is any generating resource that is owned (directly or indirectly, in whole or in part) or controlled (directly or indirectly, in whole or in part) by an Owner Member, regardless of whether the resource is connected to the Owner

Member's distribution system, or any power purchase arrangement under which an Owner Member purchases capacity or energy (or both), if such generating resource or power purchase arrangement is used to serve any portion of the Owner Member's load.

(B) A generating resource that meets the definition of a "Behind the Meter Source" as set forth in Section 4(A)(v)(a) that is used by a Member solely to provide energy to serve interruptible retail load during times when service for such load through PJM has been interrupted pursuant to the load's participation in PJM's demand response program will not be considered an "Alternate Source" subject to the requirements of this MOU&A. If an Owner Member desires to use such a generating resource at any other time, the Owner Member must comply with the requirements of this MOU&A with respect to that generating resource.

(C) Nothing in this MOU&A is intended to modify any of the express provisions of Amendment No. 3. During the term of this MOU&A, neither EKPC nor any Owner Member shall assert that this MOU&A is invalid for the reason that it is contrary to or inconsistent with the Wholesale Power Contract. In the event of an actual conflict between the Wholesale Power Contract, as amended, including by Amendment No. 3, and this MOU&A, the Wholesale Power Contract, as amended, including by Amendment No. 3, shall control.

3. Maximum Permissible Demand Reduction.

(A) The maximum demand reduction that an Owner Member can obtain through the use of Alternate Sources shall be determined as follows:

- (i) All demand measurements, whether of EKPC aggregate demand or an Owner Member's demand, called for in this Section 3 shall be measured in megawatts in 15-minute intervals and shall be adjusted to include any interruptible load that was interrupted at the time of measurement.
- (ii) If in connection with its acquisition of new service territory the Owner Member provides evidence to EKPC and the RUS in the related acquisition agreement that the acquired service territory must continue to be served by the current power supplier as a condition of the acquisition, the acquired service territory may be supplied by such current power supplier for so long as is required under the terms of such acquisition agreement. Until such supply from the current power supplier is terminated, the load of such acquired service territory shall not be included in the calculations of the 5% and 15% limitations set forth below in this Section 3 applicable to the Owner Member that acquired the service territory or any other Owner Member. From and after the termination of such supply from the current power supplier, the load of such acquired service territory (including such load during the three (3) twelve-month (12-month) periods immediately preceding the date of termination of such supply from the current power supplier) shall be included in calculations of the 5% and 15% limitations set forth below in this Section 3 applicable to the Owner Member or any Other Member.

- (iii) If, at the time the Owner Member submits an election notice pursuant to Section 4, the aggregate amount of all Owner Members' loads being served with Alternate Sources (including the load proposed to be served by the Owner Member's new Alternate Source) would be less than two and one half percent (2.5%) of the rolling average of EKPC's coincident peak demand for the single calendar month with the highest peak demand occurring during each of the three (3) twelve-month (12-month) periods immediately preceding the date the Owner Member delivers such election notice, the Owner Member's aggregate demand reduction from Alternate Sources (including the demand reduction from the proposed new Alternate Source) may not exceed 15% of the rolling average of the Owner Member's coincident peak demand for the single calendar month with the highest average peak demand occurring during each of the three (3) twelve-month (12-month) periods immediately preceding the date the Owner Member delivers such election notice. If this 15% threshold would be exceeded, the Alternate Source shall not be permitted unless the load proposed to be served by it is reduced such that this 15% threshold is not exceeded.

- (iv) If, at the time the Owner Member submits an election notice pursuant to Section 4, the aggregate amount of all Owner Members' loads being served with Alternate Sources (including the load proposed to be served by the Owner Member's new Alternate Source) would be equal to or greater than two and one half percent (2.5%) of the rolling average of EKPC's coincident peak demand for the single calendar month with the highest peak demand occurring during each of the three (3) twelve-month (12-month) periods immediately preceding the date the Owner Member delivers such election notice, the Owner Member's aggregate demand reduction from Alternate Sources (including the demand reduction from the proposed new Alternate Source) may not exceed five percent (5%) of the rolling average of the Owner Member's coincident peak demand for the single calendar month with the highest average peak demand occurring during each of the three (3) twelve-month (12-month) periods immediately preceding the date the Owner Member delivers such election notice. If this five percent (5%) threshold would be exceeded, the Alternate Source shall not be permitted unless the load proposed to be served by it is reduced such that this five percent (5%) threshold is not exceeded.

- (v) If, at the time the Owner Member submits an election notice pursuant to Section 4, the aggregate amount of all Owner Members' loads being served with Alternate Sources (including the load proposed to be served by the Owner Member's new Alternate Source) would be greater than five percent (5%) of the rolling average of EKPC's coincident peak demand for the single calendar month with the highest peak demand occurring during each of the three (3) twelve-month (12-month) periods immediately preceding the date the Owner Member delivers such election notice, the

Alternate Source shall not be permitted unless the load proposed to be served by it is reduced such that this five percent (5%) threshold is not exceeded.

(vi) The term of any Alternate Source (inclusive of any renewal options), whether the Alternate Source is a generating facility owned or controlled by the Owner Member or a contract with a third party, shall not exceed twenty (20) years.

(a) Any Alternate Source that is a contract in effect at the time when the 2.5% threshold defined in Section 3(A)(iii) is reached will be honored for the remaining term of the contract (without exercise of any renewal option). However, if at the end of the existing contract's term that was in effect when the 2.5% threshold was reached, the 2.5% threshold continues to be reached or is exceeded, and the Owner Member's aggregate amount of Alternate Source elections then exceeds the 5% threshold defined in Section 3(A)(iv), then the Alternate Source contract may not be renewed unless the Owner Member reduces the aggregate amount of the Owner Member's load served by Alternate Sources such that the aggregate amount of the Owner Member's load served by Alternate Sources (taking into account the renewal of the contract) does not exceed the 5% threshold set forth in Section 3(A)(iv). The Owner Member may meet this requirement by using demand reduction available to another Owner Member, in accordance with Section 3(B).

(b) Any Alternate Source that is a generating facility owned or controlled by the Owner Member that is in effect when the 2.5% threshold defined in Section 3(A)(iii) is reached will be honored for the remaining term of the Alternate Source as set forth in the notice provided under Section 4(A).

(B) Demand reduction available to one Owner Member may be used by another Owner Member if those two Owner Members so agree; provided, however, that in no event may a new Alternate Source proposed by an Owner Member in an election notice pursuant to Section 4 be approved if:

(i) the aggregate amount of all Owner Members' loads being served with Alternate Sources (including the load proposed to be served by the Owner Member's new Alternate Source) would be greater than five percent (5%) of the rolling average of EKPC's coincident peak demand for the single calendar month with the highest peak demand occurring during each of the three (3) twelve-month (12-month) periods immediately preceding the date the Owner Member delivers such election notice; or

(ii) the aggregate amount of the Owner Member's load being served by Alternate Sources (including the load proposed to be served by the Owner Member's new Alternate Source) would be greater than fifteen percent (15%) of the rolling average of the Owner Member's coincident peak demand for the single calendar month with the highest average peak demand occurring during each of the three (3) twelve-month (12-month) periods immediately preceding such notice.

4. Alternate Source Notices

(A) In order for an Owner Member to reduce its purchases from EKPC by using electric power and energy from an Alternate Source, that Owner Member shall have provided EKPC with prior written notice of such reduction in accordance with the procedures and requirements set forth herein. Each such notice hereunder (an "**Alternate Source Notice**") shall set forth the following information regarding the subject Alternate Source:

- (i) the term during which the Alternate Source will be used to reduce the Owner Member's purchases from EKPC under the Wholesale Power Contract, including the date on which such use will begin, and the length of time during which such use will continue, which length may not exceed 20 years (including any renewal options for an Alternate Source that is a contract with a third party);
- (ii) the maximum electrical capacity, in kW, to be available from the Alternate Source and the corresponding amount of reduction in demands to be served by EKPC as a result of the use of the Alternate Source, appropriately taking into account expected losses, if any;
- (iii) a general description of the nature of the Alternate Source and the primary generating facilities from which the subject electric power and energy will be produced;
- (iv) the approximate, expected pattern of use or dispatching of the Alternate Source and the corresponding pattern of hourly reductions in energy to be purchased by the Owner Member from EKPC; and
- (v) a designation of whether the Alternate Source will be:
 - (a) interconnected to the Owner Member's distribution system (and not to any transmission system) and will not produce energy in any hour in excess of the Owner Member's load at the Related EKPC Point of Delivery. Such Alternate Sources are referred to in this MOU&A as "**Behind the Meter Sources**". The "**Related EKPC Point of Delivery**" with respect to any Alternate Source is the point of delivery under the Owner Member's Wholesale

Power Contract through which energy purchased from EKPC would be used to serve the load served by the Alternate Source if the Alternate Source did not exist;

(b) interconnected or delivered to EKPC's or another entity's transmission system; or

(c) interconnected to the Owner Member's distribution system and will produce energy that exceeds the Owner Member's load at the Related EKPC Point of Delivery.

(B) Except as provided in Section 4(C) below, each Alternate Source Notice shall be provided to EKPC in writing at least eighteen (18) months prior to the date on which the use of the subject Alternate Source is to begin.

(C) For each Alternate Source having a noticed demand reduction of 5,000 kW or less, the required prior written notice may be provided to EKPC up to, but not later than ninety (90) days prior to the date on which the Owner Member intends to begin using that Alternate Source.

(D) An Owner Member may change or cancel an Alternate Source Notice only by providing to EKPC prior written notice of such change or cancellation, as follows: If after three years of operation an Alternate Source has a three-year rolling average peak capacity less than the maximum capacity set forth in the initial Alternate Source Notice, the Owner Member may reduce the maximum capacity of such Alternate Source by providing written notice to EKPC. Any such reduction shall not change the term or other characteristics of the Alternate Source. Ninety (90) days' prior written notice of any other change or any cancellation shall be required for an Alternate Source having an associated demand reduction of 5,000 kW or less. Otherwise, eighteen (18) months' prior written notice to EKPC of a change or cancellation shall be required. If any change is made to the demand reduction amount of an Alternate Source, the thresholds provided in Section 3 will be re-calculated as of the date the notice of change is submitted.

(E) If the Owner Member does not implement an Alternate Source within six (6) months after the date set forth in its notice for commencement of deliveries from the Alternate Source, the Owner Member may not implement the Alternate Source without re-submitting the notice required under this Section 4 and such notice shall be subject to re-calculation of the thresholds provided in Section 3 as of the date of such re-submitted notice. During the six (6) month period described in this Section (E), EKPC shall continue to serve the load intended to be served by the Alternate Source through sales of power and energy to the Owner Member under its Wholesale Power Contract.

5. Development and Use of Alternate Sources

(A) During the noticed term of use of that Alternate Source, it shall be the responsibility of the Owner Member to use commercially reasonable efforts to develop or otherwise acquire the subject Alternate Source so that such source may be used to supply a portion of the Owner Member's requirements beginning on the noticed date. EKPC shall use

commercially reasonable efforts to cooperate with and assist the Owner Member in its development or acquisition; provided that EKPC shall not be required to make out-of-pocket expenditures or provide or facilitate financing for any Alternate Source.

(B) Except as otherwise agreed to by EKPC and an Owner Member, the owning Owner Member shall use commercially reasonable efforts to operate, maintain, and dispatch the facilities comprising each of its Alternate Sources (or to cause such operation, maintenance, and dispatching) so as to reduce the maximum electrical demand placed on EKPC's system by the corresponding noticed demand reduction.

(C) With respect to each noticed Alternate Source of an Owner Member, the obligations set forth in the foregoing two paragraphs shall continue until the end of the noticed term of the Alternate Source; provided, however, that such term may be shortened or lengthened at any time by the Owner Member by providing to EKPC prior written notice of such change, as follows: For each such change, ninety (90) days' prior written notice of such change shall be required for an Alternate Source having an associated demand reduction of 5,000 kW or less. Otherwise, eighteen (18) months' prior written notice to EKPC of such change shall be required.

(D) Other requirements for Behind the Meter Sources are as follows:

(i) To the extent that the Alternate Source does not deliver capacity or energy sufficient to serve the actual load of the Owner Member intended to be served by the Alternate Source, EKPC will charge the Owner Member for capacity and energy at the rates for electric service provided under the Wholesale Power Contract.

(ii) The Owner Member must provide to EKPC information regarding the expected generation from the Behind the Meter Source, including planned and unplanned outages, as needed by EKPC so that EKPC can include such information in its schedules of load submitted to PJM and minimize to the extent reasonably practicable any PJM penalties for deviations in load attributable to differences between the estimated and actual generation from the Behind the Meter Source.

(iii) The Alternate Sources will be metered with revenue class meters.

(E) Other requirements for Alternate Sources interconnected or delivered to EKPC's or another entity's transmission system are as follows:

(i) To the extent that the Alternate Source does not deliver capacity or energy sufficient to serve the actual load of the Owner Member intended to be served by the Alternate Source, EKPC will charge the Owner Member for capacity and energy as provided in this MOU&A, and not at the rates for electric service provided under the Wholesale Power Contract. EKPC will purchase amounts of replacement capacity and energy based on the historical amounts of capacity and energy provided by the Alternate Source.

(ii) The Owner Member must provide to EKPC a day-ahead schedule of generation. EKPC will work with the Owner Member to develop the day-ahead schedule.

(iii) The day-ahead schedule of load to be served by the Alternate Source will be deemed to equal the day-ahead generation schedule of the Alternate Source.

(iv) EKPC will pass through to the Owner Member all revenues, credits and charges from PJM associated with the Alternate Source, including without limitation PJM day-ahead and real-time energy market revenues, charges and credits, PJM capacity market revenues, charges and credits, PJM operating reserve revenues, credits and charges, and PJM operating services necessary to serve the load served by the Alternate Source (i.e. capacity, energy, ancillary services (including operating reserves), NITS transmission, RTEP, etc.).

(v) The Alternate Sources will be metered with revenue class meters.

(vi) The Owner Member will pay an administrative fee to EKPC to cover the increased operation and administrative costs.

(vii) PJM market participant activities for the Alternate Source and related load will be managed by EKPC or EKPC's agent. The Owner Member shall pay EKPC a non-discriminatory, cost-based fee for such PJM market participant services, which shall be performed in accordance with good utility practices. Any dispute regarding such fee shall be submitted to the Kentucky Public Service Commission for a determination of the appropriate fee.

(F) Other requirements for Alternate Sources interconnected to an Owner Member's distribution system that produce energy that exceeds the Owner Member's load at the Related EKPC Point of Delivery shall be developed based on the requirements set forth above in Sections 5(D) and 5(E).

6. Other Matters.

(A) EKPC shall not be entitled to charge any Owner Member for so-called "stranded costs" related to the Owner Member's implementation of its rights to use Alternate Sources. As a result, to the extent that an Owner Member's use of Alternate Sources reduces its billing demands under EKPC's rates under the Wholesale Power Contract as in effect from time to time, EKPC shall not be entitled to charge any special rate or charge to the Owner Member attributable to such billing demand reduction. EKPC will, however, be entitled to continue to set its rates for all Owner Members under the Wholesale Power Contracts to produce revenues that are sufficient to cover all of its costs, in accordance with the Wholesale Power Contracts.

(B) EKPC covenants and agrees to revise or rescind existing Board Policies so that its Board Policies are consistent with this MOU&A.

(C) This Agreement may be executed in counterpart, which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Sammy Waller
Big Sandy Rural Electric Cooperative Corporation

7/23/2015
Date

Blue Grass Energy Cooperative Corporation

Date

Clark Energy Cooperative, Inc.

Date

Cumberland Valley Electric

Date

Farmers Rural Electric Cooperative Corporation

Date

Fleming-Mason Energy Cooperative

Date

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