EKPC MOTION
EXHIBIT 1

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC RATES OF EAST KENTUCKY POWER COOPERATIVE, INC.	)))	**PSC CASE NO. 2008-00409**

TESTIMONY OF
WILLIAM STEVEN SEELYE
IN SUPPORT OF EKPC MOTION
TO CREATE A REGULATORY ASSET

Q. Please state your name and business address.

A. My name is William Steven Seelye and my business address is The Prime Group, LLC, 6001 Claymont Village Dr., Suite 8, Crestwood, Kentucky, 40014.

Q. By whom are you employed?

A. I am a senior consultant and principal for The Prime Group, LLC, a firm located in Crestwood, Kentucky, providing consulting and educational services in the areas of utility marketing, regulatory analysis, cost of service, rate design and depreciation studies.

Q. On whose behalf are your testifying?

A. I am testifying on behalf of East Kentucky Power Cooperative, Inc. ("EKPC").

Q. Are you submitting other testimony in this proceeding?

A. Yes. I am also sponsoring testimony concerning EKPC's revenue requirements, cost of service study and rate design in this proceeding. My qualifications are described in the testimony included in Tab 23 of EKPC's application.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to explain EKPC's request to establish a regulatory asset that will provide a means of recovering costs associated with Spurlock 4, including an appropriate return, during the two months between April 1, 2009, which is the date when Spurlock 4 will be placed into commercial operation, and June 1, 2009, which is date when EKPC's proposed rates would go into effect in accordance with the six-month maximum suspension period applicable to rate cases supported by a forecasted test year.

Q. Please describe EKPC's regulatory asset proposal.

A. The purpose of EKPC's regulatory asset proposal is to create a means for EKPC to recover uncollected costs associated with Spurlock 4. Specifically, EKPC is requesting authority to establish a regulatory asset that would allow it to accrue the additional revenue that it would have collected in April and May 2009, if EKPC's new rates were to have gone into effect on April 1, 2009, rather than on June 1, 2009. EKPC would record the additional revenues that would have been billed through the application of the new rates during April and May 2009, in a deferred debit (Account No. 182.4). The amount ultimately recorded as a regulatory asset in Account No. 182.4 would correspond to the billing difference in April and May 2009, (based on forecasted billing determinants) between the rates ultimately approved by the Commission (without the amortization of the regulatory asset) and

EKPC's current rates. Therefore, the ultimate amount recorded as a regulatory asset would be based on the rates that the Commission ultimately authorizes in the rate case order, without considering the amortization of the regulatory asset. If the Commission authorizes the EKPC's proposed rates in this proceeding (i.e. the Phase I rates), the regulatory asset would be approximately $10.5 million based on the difference between the current and proposed rates applied to test-year billing determinants. The regulatory asset would be amortized over three years and reflected in the final rates approved by the Commission.

Q. What are EKPC's concerns about waiting until June 1, 2008, the end of the maximum suspension period in the rate case, to increase rates to recover the cost of Spurlock 4?

A. Spurlock 4, which is a 278 MW coal-fired generating unit which will cost approximately $528 million, is scheduled to go online on April 1, 2009. In April 2009, EKPC will see a spike in its operating expenses as a result of placing Spurlock 4 into commercial operation. EKPC will immediately experience higher operation and maintenance expenses as a result of operating the new generating unit. Once Spurlock 4 is placed into commercial operation, EKPC must begin accruing depreciation expenses associated with the new generation unit. Consequently, EKPC's depreciation expenses will increase significantly in April. EKPC will also see an increase in its current interest expenses as a result of Spurlock 4 going online. Prior to the commercial operation of Spurlock 4, all interest on debt associated with constructing the generating unit, except interest charges related to environmental facilities, will have been accrued as an Allowance for Funds Used During Construction ("AFUDC"). Interest during construction recorded as AFUDC is added to the cost of the plant and recovered through depreciation expense when the generating unit goes online. Once the generating unit is placed in service, EKPC must stop accruing interest as AFUDC and begin charging the interest as a current expense. Therefore, in April EKPC must begin charging all interest associated with Spurlock 4 as a current expense.

Q. What does this mean?

A. All of this means that EKPC's net operating margins (its net income) will drop significantly during the months between when Spurlock 4 goes online and when its new rates go into effect. Because of its difficult financial situation, EKPC can ill afford not to recover these costs. EKPC's equity position is already alarmingly low, but when the additional costs associated with Spurlock 4 begin hitting its books, EKPC's equity position will deteriorate even more rapidly. Assuming that the rate increase will not go into effect until June 1, 2009, EKPC's equity percentage (i.e., the percentage of equity to total capitalization) is projected to be only 6.8 percent during April and May 2009, which is dangerously low.

Q. Is EKPC proactively addressing this problem?

A. Yes. In addition to cutting costs as much as it reasonably can, EKPC is filing a rate case supported by a forecasted test period. The use of a forecasted test period allows EKPC to reduce the amount of regulatory lag that would normally be seen in a rate case supported by a historical test year. If EKPC had waited to use a historical test year, costs associated with Spurlock 4 would not be reflected in base rates until January or February 2010. But even with the use of a forecasted test period, EKPC was unable to file a rate case that would ensure an effective date for the new rates prior to June 1, 2009. According to KRS 278.190, the maximum suspension period for a rate application supported by a forecasted test year is six months. Because EKPC was unable to file the rate case with an effective date prior to December 1, 2008, assuming that the Commission will suspend the rates for the maximum suspension period implies that the new rates will not go into effect until June 1, 2009.

Q. Why didn't EKPC simply file the rate case two months earlier?

A. There were several reasons that EKPC was unable to file the rate case two months earlier. One basic reason is that there have been a number of management changes within EKPC over the past couple of years, including the departure earlier this year of its Manager of Pricing. Another reason that it was unable to file a rate case earlier is that EKPC had to move up the annual process for preparing its budget for the upcoming year. As soon as my firm was hired at the end of April 2008 to assist EKPC in preparing its rate case filing, we began analyzing what it would take to file a rate case supported by a forecasted test year. It quickly became apparent that we would need to advance the normal process of preparing the budget for the upcoming year in order to file a rate case using a forecasted test year. Once the budget was developed, we immediately began preparing a rate case using a forecasted test year ended April 30, 2010 (which was one month earlier than what was ultimately filed). We were originally on schedule to file the rate case at the end of September rather than the end of October, which would have resulted in only one month of unrecovered Spurlock 4 costs, but the process of getting Board approvals for the new rates, the process of each member getting their boards to approve the flow-through of the wholesale rate increase, and the requirement that each member system publish legal notices in newspapers throughout Kentucky ultimately prevented us from filing the rate case at the end of September, as originally planned. Because this process resulted in a one-month delay in the filing, we had to move the forecasted test year one month out into the future (to the 12 months ended May 31, 2010) from the one originally used to develop the rates approved by EKPC's Board (which was the 12 months ended April 30, 2010).

Q. Are there any alternatives to allowing EKPC to establish a regulatory asset to recover the revenues that would have otherwise been recovered if the rates went into effect on April 1, 2009.

A. Yes. As an alternative to establishing a regulatory asset as proposed by EKPC, the Commission could allow the rates to go into effect on April 1, 2009, subject to refund. In other words, the Commission could suspend the rates for four months rather than the maximum suspension period of six months and allow the rates to go into effect subject to refund on April 1, 2009, rather than June 1, 2009. Allowing rates to go into effect subject to refund on April 1, 2009, would not require the Commission to advance other elements of the rate case procedural schedule ahead of what it would otherwise be for the maximum suspension period. The reason that EKPC prefers establishing a regulatory asset over shortening the suspension period is that the regulatory asset approach would not require its members to bill rates subject to refund. While it is not difficult for EKPC to make refunds to its 16 member systems, it is significantly more difficult for EKPC's member systems to make refunds to their individual retail customers. Another option that EKPC must consider given its precarious financial situation is to request some sort of emergency relief. Of course, EKPC will continue to consider the need for emergency relief.

Q. Does this conclude your testimony?

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

THE APPLICATION OF EAST KENTUCKY	)	
POWER COOPERATIVE, INC. FOR A	)	**CASE NO. 2008-00409**
GENERAL ADJUSTMENT OF ITS	)	
WHOLESALE ELECTRIC RATES	)	

AFFIDAVIT

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

William Steven Seelye, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

Subscribed and sworn before me on this 28th day of October, 2008.

Peggy S. Duffin
Notary Public

My Commission expires: December 8, 2009