

DEC 05 2012

**PUBLIC SERVICE
COMMISSION**

Mark David Goss
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(859) 368-7740

December 5, 2012

Mr. Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2012-00169 – In the Matter of: Application of East Kentucky Power Cooperative, Inc. to Transfer Functional Control of Certain Transmission Facilities to PJM Interconnection, L.L.C.

Dear Mr. Derouen:

The final hearing in the captioned matter was held at the Commission's offices on November 7, 2012 following closely upon the filing of a Stipulation and Recommendation ("Stipulation") by East Kentucky Power Cooperative, Inc. ("EKPC"), Louisville Gas and Electric Company ("LG&E"), Kentucky Utilities Company ("KU") (collectively referenced as "the Utilities"), Office of the Attorney General of the Commonwealth of Kentucky ("AG"), PJM Interconnection, L.L.C. ("PJM") and Gallatin Steel Company ("Gallatin") (all collectively referred to as the "Parties"), addressing and agreeing to a settlement of all the disputed issues in the case.

Article III of the Stipulation addressed EKPC's on-going membership and participation in the Tennessee Valley Authority ("TVA")/LGE-KU/EKPC Contingency Reserve Sharing Group Agreement ("CRSG"), and most importantly provided:

- (1) That the parties were to work with "all good faith and best practices" to develop a plan for how EKPC could fulfill its obligation of providing 94 MW of reserves as a member of the CRSG, with a target plan completion date of December 31, 2012 (Stipulation of 11/2/12, Section 3.1); and,

- (2) That the parties were to employ “all good faith and best practices” to resolve all disputes or issues that might arise concerning the CRSG (Stipulation of 11/2/12, Section 3.2).

Indeed, even prior to the Stipulation being filed, EKPC and PJM had begun a concerted effort to develop and execute upon a plan to coordinate PJM’s assumption of EKPC’s obligations under the CRSG (Stipulation 11/2/12, Section 3.1) with TVA and the Utilities. As this planning advanced, both separate and collective discussions were held between TVA, the Utilities and EKPC. Following these discussions, TVA and the Utilities concluded that there were NERC compliance risks associated with PJM’s performance of EKPC’s CRSG obligations which outweighed the relatively small 94 MW of reserves which EKPC was obligated to provide under the CRSG.

TVA’s and the Utilities’ joint conclusion in this regard resulted in companion letters to EKPC dated November 30, 2012 requesting that EKPC immediately give notice of its intent to withdraw from the CRSG pursuant to Article 2.3.1 of the CRSG Agreement of November 20, 2009.¹ That Agreement contains a six-month notice requirement for any party intending to withdraw from it.

After due consideration of these requests and the representations made therein by both TVA and the Utilities that neither company nor its customers would be unduly burdened by EKPC’s withdrawal from the CRSG, EKPC sent companion letters to TVA and the Utilities on November 30, 2012 formally notifying each of EKPC’s intent to withdraw as a member of the CRSG effective June 1, 2013 which is the earliest date by which EKPC expects to become a full member of PJM.²

Because the Utilities and EKPC believe that they have acted in good faith and used best efforts concerning all of these matters, but that their collective labors have not satisfactorily resulted in a means by which EKPC can continue as a participating member of the CRSG while EKPC is also a member of PJM, they have reciprocally released each other from the entirety of Article III of the Stipulation.³

As a consequence of this action, the following will result:

¹These letters are attached hereto as Collective Exhibit “A”.

²These letters are attached hereto as Collective Exhibit “B”.

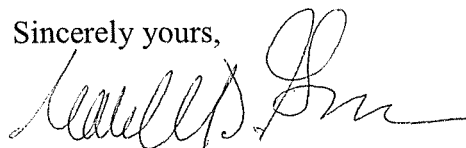
³Although part of the entire Stipulation entered into by the Parties, Article III’s obligations flow between the Utilities and EKPC exclusively and the reciprocal releases granted do not involve the remaining Parties. However, the remaining Parties have been fully advised of this situation and none have expressed any concern or objection.

- (1) EKPC will remain a full member of the CRSG Agreement from the current date to June 1, 2013, after which time it will cease to be a member and its 94 MW obligation will be re-allocated between TVA and the Utilities;
- (2) Following EKPC's withdrawal, the CRSG Agreement will continue to remain in effect with respect to TVA and the Utilities;
- (3) Should EKPC be unable to fully integrate into PJM for any reason by June 1, 2013, or, alternatively, should EKPC fully integrate into PJM but subsequently withdraw from PJM, both TVA and the Utilities would support EKPC's readmission to the CRSG Agreement based upon the requirements of the CRSG in existence at that time;
- (4) The Utilities and EKPC reciprocally release each other from performance of the entirety of Article III of the Stipulation; and,
- (5) There should not be any procedural or substantive impact upon the submission of Case No. 2012-00169, and besides rendering its final decision in the case, no further action is either requested or expected from the Commission.

An original and ten copies of this letter is being provided to the Commission for filing so that it might be fully and completely informed as to the status of this matter and the belief and agreement of the Utilities and EKPC that this action is in the best interests of all concerned.

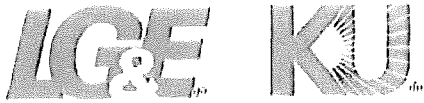
Please advise should you desire any further information regarding this matter.

Sincerely yours,



Mark David Goss

EXHIBIT "A"



PPL companies

November 29, 2012

Mr. David Crews
Senior VP of Power Supply
EKPC
4775 Lexington Road
P.O. Box 707
Winchester, KY 40392-0707

LG&E and KU Energy LLC
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

Lonnle E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@lge-ku.com

Dear Mr. Crews:

The Tennessee Valley Authority ("TVA"), Louisville Gas and Electric Company and Kentucky Utilities Company (collectively "Companies"), and East Kentucky Power Cooperative, Inc. ("EKPC") are members of the TEE Contingency Reserve Sharing Group (CRSG) Agreement dated November 20, 2009 (the "Agreement"). The Companies, EKPC and TVA have held separate and collective discussions and, based on those discussions, the Companies and TVA have concluded that there are NERC compliance risks associated with PJM's performance of EKPC's CRSG obligations. The Companies through this letter and TVA under separate cover therefore request that, on or before November 30, 2012, EKPC give notice of its intent to withdraw from the CRSG pursuant to Article 2.3.1 of the Agreement. Consistent with the six-month notice requirement in the Agreement, the effective date of the withdrawal would be June 1, 2013, which is the earliest date by which EKPC expects to become a full member of PJM.

Article III of the Stipulation and Recommendation dated November 2, 2012, by and among the Companies, EKPC, PJM, the Office of the Attorney General of the Commonwealth of Kentucky, and Gallatin Steel Company in Kentucky Public Service Commission Case No. 2012-00169 requires EKPC, PJM, and the Companies to use good faith and best practices to develop a plan for EKPC to remain in the CRSG. Article III further requires EKPC and PJM to use good faith and best practices to resolve all disputes or issues that arise with TVA or the Companies concerning the CRSG. Because the Companies believe that they and EKPC have acted in good faith and used best practices concerning these matters, but that the collective efforts have not yielded a means by which EKPC can continue in the CRSG while EKPC is a full member of PJM, the Companies hereby release EKPC from any further obligation to the Companies under Article III of the Stipulation and Recommendation effective June 1, 2013, contingent upon EKPC providing the Companies with a reciprocal release. The Companies and EKPC will need

Mr. David Crews
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to jointly inform the Kentucky Public Service Commission and the parties of record in Case No. 2012-00169 of this development.

The Companies further acknowledge that, to the best of their knowledge, none of the parties to the Stipulation and Recommendation are in default or violation of any terms thereof. In addition, the Companies do not expect that EKPC's withdrawal from the Agreement will place an undue burden on the Companies or their customers.

Finally, the Companies acknowledge EKPC's right to continue its participation in the Agreement during the six-month notice of termination period or through June 1, 2013. Consistent with the spirit and intent of Article III of the Stipulation and Recommendation, the Companies will act in good faith and consent to EKPC's readmission to the CRSG if EKPC is ultimately unable to become a full member of PJM by June 1, 2013. In addition, the Companies would support EKPC's readmission to the CRSG should EKPC subsequently withdraw from PJM, based upon the requirements of the CRSG in existence at that time.

Sincerely,


Lonnie E. Bellar



Tennessee Valley Authority, 1101 Market Street, Chattanooga, Tennessee 37402-2801

November 30, 2012

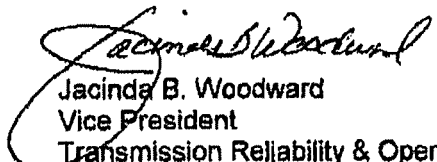
Mr. David Crews
Senior Vice President
of Power Supply
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P.O. Box 707
Winchester, Kentucky 40392-0708

The Tennessee Valley Authority (TVA), Louisville Gas and Electric Company and Kentucky Utilities Company (jointly, LGEE), and East Kentucky Power Cooperative, Inc. (EKPC) are parties to the TEE Contingency Reserve Sharing Group (CRSG) Agreement, dated November 20, 2009 (Agreement). TVA, EKPC, and LGEE have held separate and collective discussions and, based on those discussions, TVA and LGEE have concluded that there are NERC compliance risks associated with PJM Interconnection, LLC's (PJM) performance of EKPC's CRSG obligations. TVA, through this letter, and LGEE, under separate cover, therefore request that, on or before November 30, 2012, EKPC give notice of its intent to withdraw from the CRSG pursuant to Article 2.3.1 of the Agreement. Consistent with the six-month notice requirement in the Agreement, the effective date of the withdrawal would be June 1, 2013, which is the earliest date by which EKPC expects to become a full member of PJM.

TVA does not expect that EKPC's withdrawal from the Agreement will place an undue burden on TVA or its customers. Following EKPC's withdrawal, the Agreement would continue to remain in effect with respect to the other parties to the Agreement.

We acknowledge EKPC's right to continue its participation in the Agreement during the six-month notice of termination period or through June 1, 2013. Should EKPC ultimately be unable to become a full member of PJM by June 1, 2013, TVA will use good faith efforts to allow EKPC to continue its participation in the CRSG. Additionally, should EKPC subsequently withdraw from PJM, TVA would support EKPC's readmission to the CRSG based upon the requirements of the CRSG in existence at that time.

Sincerely,


Jacinda B. Woodward
Vice President
Transmission Reliability & Operations

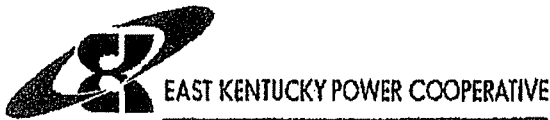
MWB:JBW:EMB

Mr. David Crews
Page 2
November 30, 2012

cc: Mr. Edwin Staton
Vice President, Transmission
Louisville Gas and Electric Company
and Kentucky Utilities Company
220 West Main Street
Louisville, Kentucky 40232

M. R. Brooks, PCC 2A-C
J. R. Gardner, PCC 2A-C
S. L. Goza, MR BA-C
A. M. Rodriguez, PCC 2A-C
R. T. Saas, WT 6A-K
EDMS, WT CA-K

EXHIBIT “B”



November 30, 2012

Mr. Lonnie E. Bellar
Vice-President for State Regulation and Rates
LG&E and KU Energy, LLC
220 West Main Street
P.O. Box 32010
Louisville, KY 40232

Mr. Charlie Freibert
LG&E and KU Energy, LLC
220 West Main Street
P.O. Box 32010
Louisville, KY 40232

RE: Notice of Withdrawal by East Kentucky Power Cooperative, Inc. from the TEE Contingency Reserve Sharing Group Agreement

Dear Mr. Bellar and Mr. Freibert:

Please accept this in response to Mr. Bellar's letter of November 29, 2012 on behalf of Kentucky Utilities Company and Louisville Gas and Electric Company (the "Companies") requesting East Kentucky Power Cooperative, Inc. ("EKPC") to tender its notice of withdrawal from the TEE Contingency Reserve Sharing Group ("CRSG") as established in the TEE Contingency Reserve Sharing Group Agreement dated November 20, 2009 (the "Agreement"). Based upon the representations set forth in your correspondence, EKPC hereby gives notice, pursuant to Section 2.3.1 of the Agreement, that it will terminate its participation and will withdraw from the Agreement and the CRSG on June 1, 2013 - the date upon which EKPC expects to fully integrate into the PJM Interconnection ("PJM"). This withdrawal will have the corresponding effect of terminating EKPC's participation in the CRSG Administrative Agreement (dated November 20, 2009) also on June 1, 2013, pursuant to Section 4.4 of the Administrative Agreement.

In giving this election, EKPC: 1) will continue its participation as a member of the CRSG until its full integration into PJM on June 1, 2013; and 2) reserves the right to seek readmission to the CRSG if: a) EKPC is unable to become a fully-integrated member of PJM; or b) EKPC subsequently withdraws from PJM. The position in your correspondence regarding EKPC's possible readmission to the CRSG is essential to EKPC's decision to provide you with this notice and, to a great extent, forms the basis for EKPC's action.

Finally, EKPC accepts the representations set forth in your letter and in reliance upon them hereby releases the Companies from any further obligations under Article III of the November 2, 2012 Stipulation and Recommendation filed in Case No. 2012-00169 before the Kentucky Public Service Commission.

Sincerely,

Mr. David Crews
Senior Vice President of Power Supply

cc: Jacinda B. Woodward (TVA)
Phillip R. Wiginton (TVA)

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

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A Touchstone Energy Cooperative



November 30, 2012

Ms. Jacinda B. Woodward
Vice President, Transmission Reliability
and Operations
Tennessee Valley Authority
1101 Market Street, MR-1B-C
Chattanooga, TN 37402-2801

Mr. Phillip R. Wiginton
Manager, Balancing Authority
Tennessee Valley Authority
1101 Market Street, MR-BA
Chattanooga, TN 37402-2801

RE: Notice of Withdrawal by East Kentucky Power Cooperative, Inc. from the TEE
Contingency Reserve Sharing Group Agreement

Dear Ms. Woodward and Mr. Wiginton:

Please accept this in response to Ms. Woodward's letter of November 30, 2012 on behalf of the Tennessee Valley Authority ("TVA") requesting East Kentucky Power Cooperative, Inc. ("EKPC") to tender its notice of withdrawal from the TEE Contingency Reserve Sharing Group ("CRSG") as established in the TEE Contingency Reserve Sharing Group Agreement dated November 20, 2009 (the "Agreement"). Based upon the representations set forth in your correspondence, EKPC hereby gives notice, pursuant to Section 2.3.1 of the Agreement, that it will terminate its participation and will withdraw from the Agreement and the CRSG on June 1, 2013 – the date upon which EKPC expects to fully integrate into the PJM Interconnection ("PJM"). This withdrawal will have the corresponding effect of terminating EKPC's participation in the CRSG Administrative Agreement (dated November 20, 2009) also on June 1, 2013, pursuant to Section 4.4 of the Administrative Agreement.

In giving this election, EKPC: 1) will continue its participation as a member of the CRSG until its full integration into PJM on June 1, 2013; and 2) reserves the right to seek readmission to the CRSG if: a) EKPC is unable to become a fully-integrated member of PJM; or b) EKPC subsequently withdraws from PJM. The position in your correspondence regarding EKPC's possible readmission to the CRSG is essential to EKPC's decision to provide you with this notice and, to a great extent, forms the basis for EKPC's action.

Sincerely,

Mr. David Crews
Senior Vice President of Power Supply

cc: Lonnie E. Bellar (LG&E and KU Energy, LLC)
Charlie Freibert (LG&E and KU Energy, LLC)

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