



EAST KENTUCKY POWER COOPERATIVE

September 30, 2011

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2010-00449

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case, an original and ten copies of the Smith Unit 1 Asset Cost Mitigation Report (second report) of East Kentucky Power Cooperative, Inc. ("EKPC"). This report is being filed pursuant to the Commission's Order of February 28, 2011.

Should you have questions or need additional information, please contact me.

Very truly yours,

Ann F. Wood
Director, Regulatory Services

Enclosures

RECEIVED

SEP 30 2011

PUBLIC SERVICE
COMMISSION

East Kentucky Power Cooperative, Inc.
Smith Unit 1 Asset Cost Mitigation Report
September 30, 2011 (Second Mitigation Report)

In accordance with the Commission's Order dated February 28, 2011 in Case No. 2010-00449, this report summarizes the status of East Kentucky Power Cooperative Inc.'s ("EKPC") mitigation efforts to reduce the balance of the regulatory asset through the sale of the Smith Unit 1 physical assets.

EKPC has negotiated final settlement of all Smith Unit 1 contracts except one. At this time, no additional charges are expected from the one contract remaining to be settled. Unwind costs associated with the other contracts are reflected in the cost to date for the Smith Unit 1 project. As of September 30, 2011, the regulatory asset balance relating to Smith Unit 1 is \$157,109,059. Please note that, until final agreements are signed by both EKPC and suppliers involved in the contract unwinding, EKPC continues to accrue the appropriate estimates for contract unwinding costs.

EKPC is currently accumulating expenses associated with preserving the assets for potential sale. These expenses to date total \$35,958.41. In addition, expenses associated with marketing the assets total \$18,627.54.

EKPC is working through an equipment broker to market the Smith assets and to identify and screen potential purchasers. As of September 30, 2011, one hundred sixty seven (167) inquiries regarding the assets have been received. Fifteen (15) of the inquirers have executed confidentiality agreements with EKPC, enabling EKPC to share technical information regarding the assets. Seven (7) of the fifteen entities who have executed confidentiality agreements are currently considered active prospects. Three (3) active prospects have conducted meetings with the Original Equipment Manufacturers (OEMs) to further evaluate the technical suitability of the Smith assets for their individual projects.

EKPC is currently engaged in due diligence activities with two of the active prospects. One prospect has provided EKPC with an indicative offer letter to purchase the assets. EKPC has replied with a counteroffer. Both active prospects have visited the Smith site with their respective engineers and made a visual inspection of the assets. Discussions with both active prospects are continuing. The boiler original equipment manufacturer is participating in the technical discussions concerning the assets.

EKPC is continuing to pursue the strategy of selling the Smith Unit 1 assets as a complete project. This strategy will continue as long as one or more active prospects are showing interest in purchasing all assets as one package. The options to sell individual components of the project and to dispose of the assets at scrap value are still available to EKPC and will be evaluated once efforts to sell the project in its entirety have been exhausted.

Through its equipment broker, EKPC is contacting nearly 100,000 power generation professionals in over 150 countries with marketing information on the Smith Unit 1 assets.