



EAST KENTUCKY POWER COOPERATIVE

December 28, 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 (third 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,

A handwritten signature in cursive script that reads "Ann F. Wood".

Ann F. Wood  
Director, Regulatory Services

Enclosures

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PUBLIC SERVICE  
COMMISSION

East Kentucky Power Cooperative, Inc.  
Smith Unit 1 Asset Cost Mitigation Report  
December 31, 2011 (Third 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. Unwind costs associated with all contracts are reflected in the cost to date for the Smith Unit 1 project. As of December 31, 2011, the regulatory asset balance relating to Smith Unit 1 is \$150,996,181.

EKPC is currently accumulating expenses associated with preserving the assets for potential sale. These expenses to date total \$40,458.41. In addition, expenses associated with marketing the assets total \$51,249.18.

EKPC is working through an equipment broker to market the Smith assets and to identify and screen potential purchasers. As of December 31, 2011, two hundred thirteen (213) inquiries regarding the assets have been received. Twenty (20) of the inquirers have executed confidentiality agreements with EKPC, enabling EKPC to share technical information regarding the assets. Six (6) of the twenty entities who have executed confidentiality agreements are currently considered active prospects. Four (4) 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 US prospects and two international prospects. One US prospect has provided EKPC with an indicative offer letter to purchase the assets but this prospective purchaser has reduced its interest in the assets and it appears this proposed project may not develop. The strongest interest is currently coming from Central and South America. Three of the prospective purchasers are working with similar timelines. All are targeting the first quarter of 2012 for finalizing their respective project development plans.

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.