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TENNESSEE VALLEY AUTHORITY

Chattanooga, Tennessee

October 28, 1951

FILED

JUN 24 1955

PUBLIC SERVICE COMMISSION

CONTRACT NO. TV-11527A
Supplement #1

East Kentucky Rural Electric Cooperative Corporation
McEldowney Building
Winchester, Kentucky

Gentlemen:

This letter will serve to confirm the understanding reached between us with regard to the modification of the agreement of May 11, 1951, (hereinafter called "1951 Agreement") between your Cooperative and TVA which we mutually feel is required as a result of your arrangements with the Kentucky Utilities Company for interconnection and joint operation. It was understood and agreed that:

1. The interconnection arrangements between the Cooperative and the Kentucky Utilities Company will require mutually satisfactory operating arrangements between the Cooperative, the Kentucky Utilities Company, and TVA, since the delivery of power under the 1951 agreement will involve the facilities of the Kentucky Utilities Company and the direct and indirect interconnections between that Company's system and TVA's system.
2. The engineering studies heretofore made by the parties show that the only foreseeable additional equipment required in connection with the establishment of the Summer Shade interconnection point is a carrier telemetering channel from said interconnection point to TVA's load control center in Chattanooga, Tennessee. Cooperative will provide and install or cause to be provided and installed at no expense to TVA a carrier telemetering channel from Summer Shade to the interconnection point between Kentucky Utilities and TVA at Pineville, Kentucky, including the receiving facilities at the latter point, and TVA shall provide at its own expense the carrier telemetering channel from said receiving facilities to Chattanooga.

If the actual operating experience of the parties after the Summer Shade interconnection is initially closed reveals that additional transformation capacity at that interconnection point is required as a result of the interconnection arrangements and transactions between the Cooperative and the Kentucky Utilities Company, Cooperative shall either effect the necessary arrangements to relieve any overload, and to prevent future overloads, on the existing transformation capacity at Summer Shade, or provide or cause to be provided at no expense to TVA such additional transformation

capacity at Summer Shade; provided, however, that Cooperative may, upon reasonable written notice to TVA, terminate the 1951 Agreement in lieu of providing such additional transformation capacity. In the event of such termination, if TVA determines that it would be necessary or desirable to remove any of the interconnection facilities provided by it in connection with the 1951 Agreement, Cooperative shall pay to TVA, promptly after receipt of statement therefor, the depreciated book cost, plus the cost of removal, less salvage value, of the interconnected facilities removed by TVA.

Any changes or additions will be made in accordance with the best over-all engineering solution.

3. The second paragraph of Section 3 of the 1951 Agreement is hereby amended to read as follows:

Cooperative intends and agrees to expand the capacity available to it from time to time by increasing its own generating capacity by the installation of new units, or by contracting to purchase power capacity from a source or sources other than TVA, with the addition of each new increment of capacity scheduled not later than the time Cooperative's load is estimated to reach 90 percent (90%) of the normal capability of the capacity then available to the Cooperative without the new increment; provided, however, that if Cooperative shall fail to schedule new increments of capacity or to install or purchase capacity in amounts sufficient to comply with the aforesaid requirements, TVA may give written notice to Cooperative to correct such failure and if such failure is not corrected within one year from the date of such notice, TVA shall be excused, until such time as Cooperative corrects such failure, from its obligations to (a) furnish power and energy under the provisions of Section 5, (b) furnish power and energy under the provisions of section 4 when the load on Cooperative's system is in excess of the normal capacity of Cooperative's generating units and the power purchased from other sources, and (c) keep its system interconnected with that of the Cooperative under the provisions of section 2 except as required to perform its obligations under section 5 and its obligations under sections 4 and 6 as qualified by the provisions of this paragraph; provided, further, that nothing herein shall be construed to limit TVA's rights to require the delivery of power and energy under the provisions of sections 4 and 6 hereof. Cooperative shall advise TVA not less often than once each year of its load conditions and forecasts for the next three (3) years, of its plans to provide new increments of capacity by construction or purchase to meet forecasted loads, and of the status of its construction program.

4. In recognition of the fact that the joint operation of the systems of the Cooperative and Kentucky Utilities Company under their interconnection agreement dated February 1, 1954, would result in reducing one of the elements of compensation

to TVA upon which the contract between the Cooperative and TVA was based, section 6 of the latter contract is hereby amended to read as follows:

TVA may obtain from Cooperative at any time, upon request any surplus energy that, in Cooperative's judgment, can be generated by Cooperative's operable generating capacity over and above the power requirements of its own service area; provided, however, that during each four-month period beginning with December 1 and ending with March 31 the surplus power and energy available to TVA hereunder shall in no event be less than ten percent (10%) of the normal capability of the Cooperative's installed generating capacity operable from time to time during such periods. Cooperative may obtain from TVA at any time, upon request, any surplus energy which TVA, in its judgment, may have available; provided, that there shall not be included among deliveries to Cooperative under this section any deliveries by TVA except in accordance with Section 5, at any time when Cooperative's load exceeds the total of its operable generating capacity and purchased capacity. It is the intent of the parties that the use by each of the surplus energy of the other shall be compensated for on a basis that will result in sharing approximately equally the incremental savings in production costs resulting from such use. It is estimated that such sharing of incremental savings would be accomplished by the party using such surplus energy paying the supplying party the incremental costs of generating such energy plus ten percent (10%), plus a quarter of a mill per kilowatt-hour; compensation shall be on that basis unless or until otherwise agreed.

For energy supplied to TVA which Cooperative has had to purchase from Kentucky Utilities Company subsequent to November 1959 to comply with its commitment under the proviso to the first sentence of this section, TVA shall pay Cooperative, in lieu of the charge otherwise applicable under this section, an amount per kilowatt-hour equal to the energy charge per kilowatt-hour (as distinguished from the demand charge applicable to such purchases from Kentucky Utilities) as now specified in Exhibit H to the contract dated February 1, 1954, between Cooperative and Kentucky Utilities Company plus 10 percent.

5. As soon as practicable Cooperative will make the arrangements with the Kentucky Utilities Company required to enable Cooperative to comply with the provisions of its contract with TVA as amended and supplemented in accordance with this letter. Any additional arrangements between Cooperative and Kentucky Utilities Company, or any other utility system which is interconnected with TVA's system, shall be subject to the approval of TVA.

October 28, 1954

If this letter is acceptable to the Cooperative, please execute and return the original and three copies hereof. After the letter has been approved by TVA's Board, we shall consider it to be a binding agreement between us and the original and one executed copy will be returned to you.

Approved by TVA
Board Directors
January 28, 1955
S/ Lucas L. Malcomus
Assistant Secretary

Very truly yours,

TENNESSEE VALLEY AUTHORITY

S/ G. O. Wessenaer
Manager of Power

Accepted and agreed to as of
the date first above written.

EAST KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

By S/ Alex B. Veech