

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO EAST KENTUCKY)	CASE NO.
POWER COOPERATIVE, INC.'S CONTINUED)	2006-00564
NEED FOR CERTIFICATED GENERATION)	

O R D E R

This matter is before the Commission on its own motion. By letter dated December 8, 2006, East Kentucky Power Cooperative, Inc. ("EKPC") formally advised the Commission that Warren Rural Electric Cooperative Corporation ("WRECC") had decided "to terminate its agreements with EKPC for future power supply and to return to a power supply arrangement with the Tennessee Valley Authority ["TVA"]." In an informal conference held on Friday, December 15, 2006, in the Commission's investigation into the financial condition of EKPC case,¹ representatives of EKPC

¹ Case No. 2006-00455, An Investigation of the Financial Condition of East Kentucky Power Cooperative, Inc.

advised that WRECC's decision would likely implicate two pending proceedings before the Commission as well as three previously decided cases.²

The decision by WRECC to terminate its future power supply agreement with EKPC will undoubtedly have an impact upon EKPC's projected load. To gain an assurance that EKPC's certificated generation for the Spurlock No. 4 unit and the Smith Circulating Fluidized Bed ("CFB") unit and attendant Combustion Turbines ("CTs") are still needed, the Commission will establish this proceeding to evaluate the justification for these generating units in light of WRECC's decision. Mindful that construction may be proceeding on each of the previously certificated generation projects, the Commission is also issuing a procedural schedule and first data request to expedite this matter. The scope of this proceeding will be limited to EKPC's continued need for the certificated generation. The Commission has previously found the certificated projects to be the most reasonable and lowest-cost options for provisioning EKPC's distribution cooperatives with the power they require both now and in the future.

² The two pending proceedings are Case No. 2006-00471, The 2006 Integrated Resource Plan of East Kentucky Power Cooperative, Inc. and Case No. 2006-00463, Notice of Intent of East Kentucky Power Cooperative, Inc. To Apply for a Certificate of Convenience and Necessity for the Smith-West Garrard 345 kV Transmission Line (not yet filed). The former proceedings are Case No. 2004-00423, Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity, and a Site Compatibility Certificate, for the Construction of a 278 MW (Nominal) Circulating Fluidized Bed Coal Fired Unit in Mason County, Kentucky; Case No. 2005-00053, Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity, and a Site Compatibility Certificate, for the Construction of a 278 MW (Nominal) Circulating Fluidized Bed Coal Fired Unit and Five 90 MW (Nominal) Combustion Turbines in Clark County, Kentucky; and Case No. 2005-00207, Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of a 161 kV Electric Transmission Line in Barren, Warren, Butler, and Ohio Counties, Kentucky.

On the basis of the foregoing, IT IS HEREBY ORDERED that:

1. This case is established to determine EKPC's continued need for the additional generation previously certificated by the Commission in the above-referenced cases.
2. The Attorney General and Gallatin Steel Company are hereby made parties to this proceeding.
3. The parties shall abide by the procedural schedule attached hereto as Appendix A and incorporated herein by reference.
4. EKPC shall file its responses to the data request attached hereto as Appendix B and incorporated herein by reference, in accordance with the procedural schedule.

Done at Frankfort, Kentucky, this 5th day of January, 2007.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00564 DATED January 5, 2007

- Responses to first discovery requests shall be
filed and served on all parties no later than..... 1/19/07
- Supplemental discovery requests shall be filed with the
Commission and served on all parties no later than..... 1/26/07
- Responses to supplemental discovery requests
shall be filed and served on all parties no later than 2/2/07
- Written request for a public hearing shall be filed with
the Commission and served on all parties no later than..... 2/6/07
- Public hearing is to begin at 9:00 a.m.,
Eastern Standard Time, in Hearing Room 1
of the Commission's offices at 211 Sower
Boulevard, Frankfort, Kentucky 2/13/07
- Briefs are to filed and served on all parties no later than..... 3/7/07

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00564 DATED January 5, 2007

COMMISSION STAFF'S INITIAL DATA REQUESTS TO EAST KENTUCKY POWER COOPERATIVE, INC.

East Kentucky Power Cooperative, Inc. ("EKPC") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due on January 12, 2007. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Provide a detailed description of the current status of planning and construction, with an itemization of costs incurred and actual contractual commitments as of December 31, 2006, for each of the following units:

- a. Spurlock No. 4 278 MW Circulating Fluidized Bed ("CFB") unit.
- b. Smith Station 278 MW CFB unit.
- c. Smith Station 90 MW Combustion Turbines ("CTs") Nos. 8-12.

2. Does EKPC believe that its future load forecast supports the continued need for the Spurlock No. 4 unit and the Smith unit with attendant CTs in light of Warren Rural Electric Cooperative Corporation's ("WRECC") decision to terminate its future power supply agreement with EKPC?

a. If so, provide a detailed explanation supporting such belief.

b. If not, provide a detailed explanation of EKPC's future load forecast in light of WRECC's decision.

3. Has EKPC performed a cost/benefit analysis, from a ratepayer point of view, on the effects of delaying or canceling any of the proposed generation projects? Provide the assumptions, calculations, and conclusions from such an analysis.

4. Does EKPC have any contracts in place to sell excess capacity to off-system customers, either during non-peak periods or in the case where load does not grow to expected levels?

5. Does building the new generating units certificated in Case Nos. 2004-00423 and 2005-00053 without the WRECC load allow EKPC to dispatch units more efficiently? If so, what would be the net effect on the heat rate to EKPC's system? What would be the net effect on the average marginal cost per kWh?

6. Does EKPC have enough transmission line capacity and interconnection capacity to sell large quantities (the output of an entire CFB generator) of power off system?

7. Has EKPC performed a feasibility study to determine whether the construction of all or some of the CTs and the coal unit at the Smith site and retiring some of the old coal units on its system is economically feasible?

- a. If no, explain why such a study is not necessary.
- b. If yes, provide the study.

8. What would EKPC's reserve margin be for 2007 through 2017 if all the proposed CTs and the coal units are constructed at the Smith Site? Explain how it was derived and provide all supporting calculations.