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Teresa J. Hill  
Vice Chairman

Gregory Coker  
Commissioner

April 25, 2006

RE: Case No. 2006-00131

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

BOD/jc  
Enclosure

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF EAST KENTUCKY	)	
POWER COOPERATIVE, INC. FOR THE	)	CASE NO.
SIX-MONTH BILLING PERIOD ENDING	)	2006-00131
DECEMBER 31, 2005 AND THE PASS THROUGH	)	
MECHANISM FOR ITS SIXTEEN MEMBER	)	
DISTRIBUTION COOPERATIVES	)	

O R D E R

On March 17, 2005, the Commission approved East Kentucky Power Cooperative, Inc.'s ("East Kentucky") environmental surcharge application and established a surcharge mechanism.<sup>1</sup> The Commission also approved a mechanism to pass through the environmental surcharge to East Kentucky's 16 member distribution cooperatives.<sup>2</sup> Pursuant to KRS 278.183(3), at 6-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual

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<sup>1</sup> Case No. 2004-00321, Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge, final Order dated March 17, 2005.

<sup>2</sup> Case No. 2004-00372, Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric, Shelby Energy Cooperative, South Kentucky RECC and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc., final Order dated March 17, 2005.

costs recoverable pursuant to KRS 278.183(1). At 2-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. Therefore, the Commission hereby initiates the 6-month review of the surcharge as billed from July 1, 2005 to December 31, 2005 to the member distribution cooperatives and the pass through mechanism as billed from August 1, 2005 to January 31, 2006 to retail member customers.<sup>3</sup>

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, East Kentucky is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the time periods under review; and (b) in support of the reasonableness of the application of the pass through mechanism during the time periods under review. In addition, East Kentucky is to file its response to the information requested in Appendix B, attached hereto and incorporated herein.

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<sup>3</sup> The Settlement Agreement approved in Case Nos. 2004-00321 and 2004-00372 allows the member distribution cooperatives to pass through the environmental surcharge to their customers at approximately the same time as East Kentucky bills the environmental surcharge to the member distribution cooperatives, thus avoiding a billing lag for the member distribution cooperatives. Therefore, the costs incurred from June 2005 through November 2005 are billed to the member distribution cooperatives in the months of July 2005 through December 2005. These same costs are passed through to the member customers on the bills for August 2005 through January 2006.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. East Kentucky shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to its member distribution cooperatives from July 1, 2005 through December 31, 2005 and the application of the pass through mechanism as billed to the distribution cooperatives' member customers from August 1, 2005 through January 31, 2006. At the public hearing there shall be no opening statements or summaries of testimony.

3. East Kentucky shall give notice of the hearing in accordance with the provisions of 807 KAR 5:011, Section 8(5). At the time publication is requested, East Kentucky shall forward a duplicate of the notice and request to the Commission.

4. East Kentucky shall, by the date set forth in Appendix A, file the information requested in Appendix B, attached hereto and incorporated herein, along with its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism and the application of the pass through mechanism during the periods under review.

5. Any party filing testimony shall file an original and 9 copies.

6. All requests for information and responses thereto shall be appropriately indexed, and an original and 6 copies shall be filed with the Commission, with copies to all parties of record. Any request for information from the Commission Staff shall be responded to as if set forth in a Commission order. All responses shall include the

name of the witness who will be responsible for responding to questions related to the information provided.

7. Within 7 days of the Commission granting intervention to a party, East Kentucky shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

8. East Kentucky's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

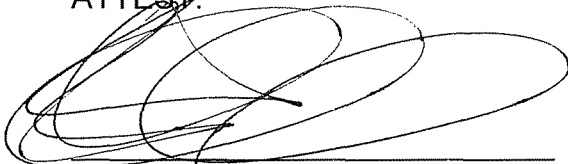
9. The case records of Case Nos. 2004-00321, and 2004-00372 shall be incorporated by reference into the record of this case.

10. Any objections or motions relating to discovery or procedural dates shall be filed upon 4 business days' notice or shall include an explanation why such notice was not possible.

Done at Frankfort, Kentucky, this 25th day of April, 2006.

By the Commission

ATTEST:

A large, complex handwritten signature in black ink, consisting of multiple overlapping loops and lines, positioned above a horizontal line.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2006-00131 DATED April 25, 2006.

East Kentucky shall file its prepared direct testimony and responses to the information requested in Appendix B no later than..... 05/17/06

An informal technical conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room No. 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues..... 05/24/06

All additional requests for information to East Kentucky shall be filed no later than ..... 06/07/06

East Kentucky shall file responses to additional requests for information no later than ..... 06/21/06

Intervenor testimony, if any, in verified prepared form shall be filed no later than..... 06/30/06

All requests for information to Intervenors shall be filed no later than ..... 07/14/06

Intervenors shall file responses to requests for information no later than ..... 07/28/06

Last day for East Kentucky to publish notice of hearing date ..... To be scheduled

Public Hearing is to begin at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of East Kentucky and Intervenors ..... To be scheduled

Briefs, if any, shall be filed by ..... To be scheduled

## APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2006-00131 DATED April 25, 2006.

### FIRST DATA REQUEST OF COMMISSION STAFF TO EAST KENTUCKY POWER COOPERATIVE, INC.

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing period. Form 1.1 can be used as a model for this summary. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period. Include a calculation of any additional over- or under-recovery amount East Kentucky believes needs to be recognized for the 6-month review. Include all supporting calculations and documentation for the additional over- or under-recovery.

2. For each of the 16 member distribution cooperatives, prepare a summary schedule showing the distribution cooperative's pass through revenue requirement for the months corresponding with the 6-month review. Include the two months subsequent to the billing period included in the 6-month review. Include a calculation of any additional over- or under-recovery amount the distribution cooperative believes needs to be recognized for the 6-month review. Include all supporting calculations and documentation for the additional over- or under-recovery.

3. Refer to Form 2.3, Inventory and Expense of Emission Allowances, for the August through November 2005 expense months.



a. For the sulfur dioxide ("SO<sub>2</sub>") emission allowance inventory, provide all workpapers, calculations, and assumptions used to determine the balances and dollar values shown for the beginning inventory, allocations/purchases, utilized, sold, and ending inventory categories for the August through November 2005 expense months.

b. For the nitrogen oxide ("NO<sub>x</sub>") emission allowance inventory, provide all workpapers, calculations, and assumptions used to determine the balances and dollar values shown for the beginning inventory, allocations/purchases, utilized, sold, and ending inventory categories for the September through November 2005 expense months.

4. Refer to Form 2.4, O&M Expenses and Determination of Cash Working Capital Allowance, the "Non-Gilbert" amounts for the June through September 2005 expense months.

a. In the June 2005 expense month, East Kentucky reported Non-Gilbert operation and maintenance ("O&M") expenses for the "6<sup>th</sup> previous month" of \$860,756. Provide an analysis of the \$860,756 O&M expenses and explain why the level of expenses reported for the "6<sup>th</sup> previous month" was significantly higher than any other period shown on Form 2.4 as reported for the June 2005 expense month.

b. Explain why the level of Non-Gilbert "Current Month" O&M expenses reported for the June through September 2005 expense months were higher than the remaining months in the 6-month review period or the 5 months prior to the June 2005 expense month.

5. Refer to Form 2.4, O&M Expenses and Determination of Cash Working Capital Allowance, the "Gilbert" amounts for the June through November 2005 expense months.

a. Provide the reason(s) why the Gilbert O&M expenses for the October 2005 expense month were significantly lower than the other months in the 6-month review period.

b. During the 6-month review period, the Gilbert O&M expenses have ranged from \$98,109 to \$361,223. Provide the reason(s) why the following account balances have fluctuated during the 6-month review period:

(1) Account No. 50144 – Fuel Coal Gilbert.

(2) Account No. 51244 – Maintenance of Boiler Plant Gilbert.

(3) Account No. 50644 – Miscellaneous Steam Power Expense – Gilbert.

6. The Settlement Agreement approved in Case No. 2004-00321 provides that East Kentucky's rate of return on compliance-related capital expenditures will be updated to reflect current average debt cost at the conclusion of the 6-month surcharge review. Provide the following information as of November 30, 2005:

a. The debt issuances directly related to projects in the approved compliance plan and corresponding outstanding balances of each debt issuance.

b. The debt cost for each debt issuance directly related to the projects in the approved compliance plan.

c. East Kentucky's calculation of the weighted average debt cost and the rate of return resulting from multiplying the weighted average debt cost by a 1.15

Times Interest Earned Ratio. Include all supporting calculations showing how the weighted average debt cost was determined.

7. Provide the percentage of East Kentucky's debt issuances directly related to projects in the approved compliance plan that has a variable interest rate as of the November 2005 expense month.

8. Provide the following information concerning East Kentucky's inventories of SO<sub>2</sub> and NO<sub>x</sub> emission allowances:

a. The number of emission allowances in the ending inventory balances as of December 31, 2005. This ending inventory balance should reflect all available past vintage years of emission allowances through the 2005 vintage year.

b. For each year in the period 2006 through 2016:

(1) Indicate the number of emission allowances allocated or expected to be allocated by the Environmental Protection Agency for the East Kentucky generating units.

(2) Indicate the number of emission allowances that have been "swapped" or otherwise transferred to other entities.

(3) Indicate the number of emission allowances East Kentucky estimates it will utilize in conjunction with the operation of its generating units. Reflect the changes resulting from the adoption of the Clean Air Interstate Rule.

(4) If available, indicate any other estimated additions or withdrawals of emission allowances from the East Kentucky inventories of emission allowances. Include a description of the type of addition or withdrawal.

9. Through the end of 2016, does East Kentucky plan on achieving SO<sub>2</sub> and NO<sub>x</sub> emission limit compliance for its generating units only through the operation of currently in service emission control equipment, emission control equipment East Kentucky has received or has pending applications for certificates of public convenience and necessity, and the consumption of emission allowances? If no, describe East Kentucky's current plans for SO<sub>2</sub> and NO<sub>x</sub> emission limit compliance at its generating units through the end of 2016.