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DEC 12 2006
PUBLIC SERVICE
COMMISSION

December 11, 2006

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2006-00455

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced case an original and ten copies of the Petition for Confidential Treatment of Information of East Kentucky Power Cooperative, Inc. ("EKPC"), and one confidential and ten redacted copies of its supplemental response to the Commission Staff's Data Request No. 16 in this case, dated November 9, 2006. This response includes minutes of executive sessions of the EKPC Board of Directors meetings during 2006, which were approved at the regular meeting of the EKPC Board on December 5, 2006, and were not available at the time of the initial response to that Data Request.

Very truly yours,



Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Parties of Record

RECEIVED

DEC 12 2006

**PUBLIC SERVICE
COMMISSION**

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**AN INVESTIGATION OF THE)
FINANCIAL CONDITION OF) CASE NO. 2006-000455
EAST KENTUCKY POWER)
COOPERATIVE, INC.)**

**PETITION FOR CONFIDENTIAL
TREATMENT OF INFORMATION**

Comes now the petitioner, East Kentucky Power Cooperative, Inc. ("EKPC") and, as grounds for this Petition for Confidential Treatment of Information (the "Petition"), states to the Public Service Commission (the "Commission") as follows:

1. This Petition is filed in conjunction with the filing of EKPC's supplemental response to Data Request No. 16 contained in the Commission Staff's Second Data Request dated November 9, 2006, and relates to confidential information contained in that response that is entitled to protection pursuant to 807 KAR 5:001 Section 7 and KRS §61.878 (1) (c) 1 and related sections.

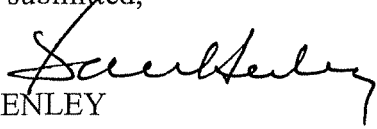
2. The designated confidential information in Response No. 16 includes a reference in the minutes of an executive session of the EKPC Board of Directors meeting on October 3, 2006. The designated portion of those minutes relates to a privileged discussion with the EKPC Board of Directors, by EKPC's General Counsel, about developments associated with the on-going litigation with the Environmental Protection Agency concerning EKPC's compliance with environmental regulations. EKPC is

currently involved with settlement discussions regarding this litigation, and disclosure of the details of this information could adversely affect its strategies and bargaining position in such discussions. Such disclosure could result in less favorable settlement terms, which would potentially increase the magnitude of the out-of-pocket costs of any settlement, and/or lead to the proposal of less favorable terms regarding EKPC plant operation. Such developments would increase EKPC's overall operating costs and would lead to an unfair competitive disadvantage for EKPC in its efforts to compete with the power marketers, utilities and other entities that deal in the market for surplus bulk power, and to compete with other utilities in Kentucky for new industrial customers.

3. Along with this Petition, EKPC has enclosed one copy of confidential sections of the subject response, with the confidential information identified by highlighting or other designation, and 10 copies with the confidential information redacted. The identified confidential information is not known outside of EKPC and is distributed within EKPC only to persons with a need to use it for business purposes. It is entitled to confidential treatment pursuant to 807 KAR 5:001 Section 7 and KRS §61.878(1)(c) 1, for the reasons stated hereinabove, as information which would permit an unfair commercial advantage to competitors of EKPC if disclosed. The subject information is also entitled to protection pursuant to KRS §61.878(1)(c) 2 c, as records generally recognized as confidential or proprietary which are confidentially disclosed to an agency in conjunction with the regulation of a commercial enterprise.

WHEREFORE, EKPC respectfully requests the Public Service Commission to grant confidential treatment to the identified information and deny public disclosure of said information.

Respectfully submitted,


DALE W. HENLEY

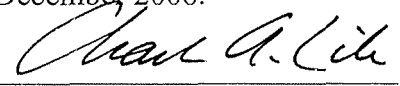

CHARLES A. LILE

P. O. BOX 707
WINCHESTER, KY 40392-0707
(859) 744-4812

ATTORNEYS FOR EAST KENTUCKY
POWER COOPERATIVE, INC.

CERTIFICATE OF SERVICE

This is to certify that an original and 10 copies of the foregoing Petition for Confidential Treatment of Information in the above-styled case were sent by overnight delivery to the office of Elizabeth O'Donnell, Executive Director of the Public Service Commission, 211 Sower Boulevard, Frankfort, KY 40601, and copies were mailed to Parties of Record, this 11th day of December 2006.



Charles A. Lile

EAST KENTUCKY POWER COOPERATIVE, INC.

**PSC CASE NO. 2006-00455
INFORMATION REQUEST
SUPPLEMENTAL RESPONSE**

RECEIVED

DEC 12 2006

**PUBLIC SERVICE
COMMISSION**

PUBLIC SERVICE COMMISSION DATA REQUEST DATED

NOVEMBER 9, 2006

REQUEST NO. 16

RESPONDING PERSON: Dale Henley

Request No. 16: Refer to pages 13, 77, 109, 125, and 158 of your response to the Commission's October 27, 2006 Order, Item 13. Provide a copy of the minutes of each Executive Session for each Board of Directors meeting of EKPC held during 2006.

Response No. 16 (Supplemental): The minutes of the Executive Sessions of the EKPC Board of Directors Meetings held on May 9, July 11, August 8, September 12, October 3, and November 14, 2006, as approved at the December 5, 2006 EKPC Board Meeting, are attached.

EAST KENTUCKY POWER COOPERATIVE, INC.

**EXECUTIVE SESSION PORTION OF THE
MINUTES OF BOARD MEETING**

MAY 9, 2006

Following is the Executive Session portion of the regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. ("EKPC") held at the Headquarters Building, 4775 Lexington Road, Winchester, Kentucky, on Tuesday, May 9, 2006, which began at 11:35 a.m. EDT, pursuant to proper notice.

EXECUTIVE SESSION

At 12:35 p.m., Board Chairman Wayne Stratton called for an Executive Session of the Directors and Alternate Directors. At this time, everyone except those designated left the room.

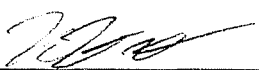
Approval of Past Executive Session Minutes – Upon motion of Neal Pendygraft, seconded by Donnie Crum, the minutes of the following Executive Sessions were approved:

- Board Meeting Executive Session of January 11, 2005,
- Board Meeting Executive Session of October 11, 2005,
- Board Meeting Executive Session of January 10, 2006,
- Committee-of-the-Whole Executive Session of May 10, 2005,
- Committee-of-the-Whole Executive Session of December 6, 2005, and
- Committee-of-the-Whole Executive session of March 14, 2006.


No further information regarding this Executive Session was provided to the recording secretary for inclusion in these Executive Session Minutes.

Chairman Stratton adjourned the Executive Session and the regular Board meeting at 1:35 p.m.

Approved:



R. Wayne Stratton
Chairman of the Board



A. L. Rosenberger
Secretary

Date: *December 5, 2006*

EAST KENTUCKY POWER COOPERATIVE, INC.

**EXECUTIVE SESSION PORTION OF THE
MINUTES OF BOARD MEETING
JULY 11, 2006**

Following is the Executive Session portion of the regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. ("EKPC") held at the Headquarters Building, 4775 Lexington Road, Winchester, Kentucky, on Tuesday, July 11, 2006, which began at 12:25 p.m. EDT, pursuant to proper notice.

EXECUTIVE SESSION

At 1:15 p.m. the Board Chairman asked for the meeting to go into Executive Session, and a motion was made, seconded, and passed to do so. Remaining for the Executive Session were Directors, Alternate Directors, Roy Palk, Richard Byrne, and Gerald Hayes. Della Damron stayed to assist with the minutes. The purpose of the Executive Session was for Consultant Richard Byrne to present his report.

First Report of Consultant Richard Byrne

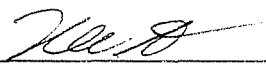
EKPC Consultant Richard Byrne distributed and reviewed his report (copy attached) titled "EKPC Maximum Value Project—Consultant Report MVP-1." Discussion followed. Mr. Palk concluded saying the short-range to long-range steps to be followed are:

- Easily or quickly accomplished things will be done soon,
- Policy-based issues will need to be reviewed and brought back to the Board
- Long-term changes, including staff reduction/buy-out plan, benefits study, cost containment,
- Executive Vice President/Chief Operating Officer Search,
- "Up-and-out partnership" structure/risk management plan to be accomplished with the assistance of Mr. Byrne.


No other business was brought before the Board.

There being no objection, the Chairman adjourned the Executive Session and the Board meeting at 2:10 p.m.

Approved:



R. Wayne Stratton
Chairman of the Board



A. L. Rosenberger
Secretary

Date: December 5, 2006

7-11-06
Executive Session
of Board Mtg.

EAST KENTUCKY POWER COOPERATIVE MAXIMUM VALUE PROJECT

CONSULTANT REPORT MVP-1

INTRODUCTION:

President Palk has charged the Consultant with examining all aspects of EKPC's planning and operations to identify costs that can be reduced and to recommend actions to accomplish such reductions. The President has instructed the Consultant to review EKPC's strategic plan and to recommend goals and objectives that if followed will lead to an EKPC that is financially strong and provides wholesale power to its member systems that is reliable and cost competitive. The President has requested that a template for the scope of oversight and associated responsibilities for the new position of Chief Operating Officer be prepared.

INITIAL OBSERVATIONS:

1. EKPC's present financial condition is weak. There is a high probability that margins will not be adequate to meet yearend financial tests. Failure to do so could result in CFC not allowing any further draws on EKPC's Line of Credit.
2. Staff is highly aware of this problem and is working diligently to reduce costs. The President's committees reviewing costs have begun to identify cost reduction areas, but the work needs to be done with a higher sense of urgency and reduction recommendations implemented and monitored. Recommendations of the Consultant regarding more meaningful cost control and reduction efforts will be provided after further study of the issue.
3. Staff appears to be hard working and dedicated to serving member systems and the consumer but its culture needs to be modified to seek more innovative and timely solutions to pressing problems. This issue will be discussed below.

4. There is an immediate and critical need to permanently fill the new position of Chief Operating Officer (COO). The individual filling this position should have an approach to management that is down and in as compared to up and out. There is a need to have the COO coordinate and prioritize interests of EKPC's business units to assure that the overall best interests of EKPC and its members and consumers are realized. The new position title should be Executive Vice President and Chief Operating Officer.

The Consultant is studying many issues to fulfill the charge given by the President. The issues are being prioritized with respect to relative importance and the studies are at various stages of development. The President will receive reports on the progress of examination of each issue and will eventually receive recommendations regarding each issue when the Consultant is convinced that he is well informed and the recommendations are sound.

ISSUE 1: Dependence on spot market for unit outage backup.

In 2004 EKPC incurred an outage cost of \$38 million when it lost a Spurlock Unit. Today EKPC remains fully exposed to costs associated with plant outages that could greatly exceed the 2004 costs. Another costly outage would have devastating impacts on EKPC's financial status.

RECOMMENDATION:

A short term, partial solution to the problem is to purchase unit outage insurance. The coverage is expensive and proceeds after an outage, if any, will at best only soften the financial impact of the outage. EKPC finds itself in a position that it can not afford not to buy some insurance. A small amount of insurance was put in place on June 19, 2006 for coverage during July and August.

In order to seriously address this issue EKPC must immediately initiate discussions with other generating entities to explore partnering backup arrangements. Such arrangements have successfully worked for years for others. Innovative approaches should not be hindered by assuming regulators, RUS or other conditions would prevent success. Rather, we should go forward under the belief that there is a way to "make it happen".

ISSUE 2: OTHER SPOT MARKET RISKS.

EKPC depends most of the time on spot market purchases to meet its daily requirements. This practice may provide the least cost power most of the time but it can result in unacceptably high costs at times of market instability. The result of such instability can cost millions of dollars over just a few days and result in high pass through costs. There are products such as futures and options that can be purchased to hedge high spot market cost risks. Staff is reluctant to purchase such products because if the futures or options purchased wind up costing more than the spot market EKPC would have been better off to have gambled on the spot market. Added costs would flow directly to EKPC's bottom line because they can't be passed through to the members under PSC rules. Another factor that can't be ignored is that staff may feel it is better for them to not have to explain why the products purchased to hedge against higher costs actually resulted in higher costs than if they had gambled on the spot market, given the fact that costs for power purchased from the spot market can be passed directly on to the consumer.

RECOMMENDATION:

The Board of Directors should be thoroughly briefed on this issue. The Board should then consider a policy recommendation, which if adopted will give clear direction to staff on how the risk and business conflicts are to be dealt with.

A long-term solution that eliminates this conflict is new legislation that will be addressed below as another issue.

ISSUE 3: APPROPRIATE STAFFING LEVELS

There is a need to reduce staff in order to improve efficiencies and offer personal growth for certain individuals. Attrition will not result in reducing costs in a timely way.

RECOMMENDATION:

EKPC should recommend for Board approval an early retirement package that will result in reduced staff levels.

ISSUE 4. ALLOWANCE PURCHASES

There was a time in the recent past when EKPC was forced to purchase allowances at an elevated market price. Staff is aware of the reasons the untimely purchases had to be made and now has a hedging plan now in place to prevent it from happening again.

RECOMMENDATION:

Staff should continue to use its present hedging methodology while monitoring the market for better hedging practices and/or one time opportunities to reduce costs.

ISSUE 5. BUDGET REVIEW

The consultant is conducting a line by line study of EKPC's budget and work plans. Work has not been completed on this effort. The staff has recommended certain budget cuts but in some areas the cuts need to be deeper. Below are initial actions that should be considered.

INITIAL RECOMMENDATIONS

The President and/or the Board should consider the following actions until EKPC is in a stronger financial position.

Suspend memberships in EPRI and CRC. Pay for present commitments.
Defer all training and its associated travel costs.

ISSUE 6 WAGE AND SALARY PLAN

EKPC salaries for executives and professional employees are well below market. Benefits for all employees are very generous. Increases in salaries are given for merit and cost of living.

RECOMMENDATION

Salary increases should be based 100% on merit. This approach will reward your most productive employees for their efforts while providing a good management tool for those that need to be motivated. Good evaluation practices by setting goals that management can use to measure performance will be necessary.

EKPC should undertake a comprehensive evaluation of employee benefits to find ways that these costs can be reduced.

EKPC should bring the salary levels of Vice Presidents and certain other professionals to G&T market levels over a 3 year period.

ISSUE 7 FUEL PROCUREMENT

EKPC has experienced significant fuel cost increases over the last 3 years. In fact 50% of the increase in wholesale power costs is attributable to fuel. An analysis of the reasons fuel costs have increased will be done and we will identify changes in our procedures that are needed to limit future surges in price. We will investigate hedging possibilities and innovative ways of controlling costs

RECOMMENDATION

To follow

ISSUE 8 TRANSMISSION

EKPC's transmission system appears to be in need of upgrade in several areas. Under certain conditions the system can't support (at the same time) EKPC's needs and north – south flows caused by wholesale transactions of others. New transmission lines and upgrades presently under construction and planned for the near future will help alleviate the problems. It appears that EKPC's approach to planning and installation of transmission has been to do what is necessary to solve today's problem and has not been integrated into a long-range generation/transmission plan as much as it could have been. It appears also that the least cost approach to solving pressing transmission problems has been used, which has led to the development of additional problems that might have been avoided. Staff now in charge clearly sees what problems need to be studied and will be proposing actions to be followed in the future. In the meantime EKPC will have to do the best it can with what it has to work with.

RECOMMENDATION

A comprehensive study should be undertaken that identifies generation and transmission alternatives over the next 25 years. The results should be incorporated into EKPC's strategic plan and regularly reviewed. The alternatives studied should address all cost considerations including the potential 1st and 2nd contingency transmission failure impacts on consequential costs.

ISSUE 9 LOAD MANAGEMENT

Load Management (LM) is a tool to reduce costs that has not yet been appropriately pursued at EKPC. New peaking plant capital costs are approximately \$450.00/KW. Capital costs for a fully installed LM system are approximately \$50.00/KW. Debt service and fuel savings, net annual operating costs, would be significant.

RECOMMENDATION

Staff should prepare a complete cost benefit analysis of installing a load management system. The analysis should also address operating issues regarding:

- 1.0 Should the system be operated by EKPC or its members.
- 2.0 What devices should be controlled, water heaters, electric storage, air conditioning etc.
- 3.0 What special rate incentives are appropriate to send the correct signals.
- 4.0 What consumer communications are necessary to make them aware of the purpose of load control and that it is a voluntary program.

ISSUE 9 NEED OF LEGISLATION

EKPC's present financial position can be attributed in large part to regulations that do not permit or encourage sound long term financial planning. An equity enhancement or liquidity improvement plan was not, nor will it ever be approved by the PSC. The present rules prohibiting pass through of certain power supply costs discourage the use of sound practices that could be employed to reduce and stabilize power costs. The market has changed dramatically but the enabling legislation that the PSC operates under limits what they can do to respond to a different world. Cooperatives across the nation have been very successful in having legislation passed which allows them to opt out of state regulation. The rationale for being permitted to opt out is that cooperatives are already comprehensively overseen by the RUS and that elected officials govern at the local level as well, thus the public interest is protected. The best remedy that the cooperatives could have to their operational and financial challenges is to be exempt from state regulation.

RECOMMENDATION

EKPC and the Kentucky Statewide Association should enter into discussions with key legislators regarding new legislation that would exempt Kentucky's cooperatives from state regulation unless they chose to opt in to oversight. Alternatively, legislation could be adopted that would allow electric cooperatives to opt out of PSC oversight (typically supported by a vote of their membership). The legislation should also specifically state that territorial protection remains in effect.

ISSUE 10 WHOLESALE POWER AGREEMENT

EKPC currently depends on RUS/FFB and CFC to finance its capital needs. Everyone is aware that some day there may be a need to obtain financing from Wall Street. The present Wholesale Power Agreement (WPA) needs to be strengthened if EKPC ever has to seek other financing alternatives.

RECOMMENDATION

EKPC's WPA should be amended to include "Take or Pay" language rather than its present "Take and Pay" clause. The revised language will give investors more confidence that debt will be repaid. This language change has been recommended in the past by RUS to give greater security to their loans.

ADDENDUM TO MVP-1

It is very important that the President and the Board understand that EKPC has a dedicated staff that is fully committed to the success of EKPC and its members. The Consultants charge is to identify areas where improvements to the program can be made. It should be understood that the day to day business performance of staff is excellent. Staff has been very open to helping me understand the issues and much to their credit have shared with me things they have done in the past and would do differently today.

EAST KENTUCKY POWER COOPERATIVE, INC.

**EXECUTIVE SESSION PORTION OF THE
MINUTES OF BOARD MEETING
AUGUST 8, 2006**

Following is the Executive Session portion of the regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. ("EKPC") held at the Headquarters Building, 4775 Lexington Road, Winchester, Kentucky, on Tuesday, August 8, 2006, which began at 11:45 p.m. EDT, pursuant to proper notice.

EXECUTIVE SESSION

At 11:48 a.m. the Board Chairman asked for the meeting to go into Executive Session, and a motion was made by Wade May, seconded by Lonnie Vice, and passed to do so. Remaining for the Executive Session were Directors, Alternate Directors, and Roy Palk; as well as Gerald Hayes, and Becky Goad of Warren RECC. Della Damron stayed to assist with the minutes. The purpose of the Executive Session was for Consultant Richard Byrne to present his August 8 Progress report.


August 8, 2006, Progress Report of Consultant Richard Byrne

Roy Palk distributed Richard Byrne's "Progress Report memo to President," dated August 8, 2006, (copy attached) to all present and contacted Byrne, who was out of town, by phone; and Byrne reviewed his report on speakerphone.

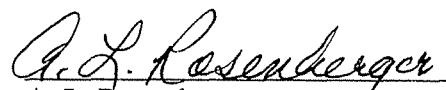
Work continues on preparation of Maximum Value Project ("MVP")-2. It will be available for the September Board meeting.

The Chairman requested and a motion was made, seconded, and passed; to adjourn the Executive Session at 12:03 p.m. The regular Board meeting resumed following lunch.

Approved:



R. Wayne Stratton
Chairman of the Board



A. L. Rosenberger
Secretary

Date: December 5, 2006

8-8-06
Report of Dick Byrnes
Executive Session

August 8, 2006

To: President

From: Consultant

Subject: Progress Report

The following progress has been made regarding issues identified in report MVP-1.

A final job description has been completed for the position of Executive Vice President (EVP). A search firm is screening candidates now. The Vice President of Human Resources and the Consultant will review resumes in the near future. Candidates will be selected for interviews over the next month. It is hoped that a suitable person will be found within three months. However, it is very possible that the best candidate will not be found immediately and a second search firm could be required.

Work has begun to secure a backup power supply, reduce EKPC's dependence on the spot market and to find innovative ways to procure fuel. A new approach to planning and making decisions has been implemented. The brain thrust of all business unit heads and appropriate staff collectively will be involved in developing innovative solutions to pressing needs. The group will be involved in all stages of idea development and implementation. This process will assure the best interests of member systems and our consumers will be the driving force behind making decisions. The EVP should continue this process. Staff's first meeting addressed fuel purchasing. The next meetings will be on backup, future power supply and transmission alternatives. Our goal is to provide the President with all necessary information for initiating negotiations with G&Ts, IOUs or others.

Work has also begun to gather competitive intelligence on potential partners and possible contract participants.

Human Resources have begun work to develop a plan for the board to consider regarding an early retirement package. Much study lies ahead to understand the costs of such a package and the operational impacts it might

have on EKPC. We are targeting the proposal to be ready for Board consideration by the 2nd quarter of 2007.

Human Resources are also addressing the wage and salary plan with emphasis on cost containment of benefits. The work will be completed in time for Board approval as part of EKPC's annual budget process this year.

Operations has been given the go ahead to fill vacant positions at our power plants. No other vacant or new positions will be filled at this time.

Any consideration for salary adjustments related to MVP-1, ISSUE 6, have been deferred indefinitely.

The roundtable discussions held on fuel procurement resulted in approximately 20 interesting concepts for consideration. Staff is in process of prioritizing the ideas and expanding on those that the participants believe have the greatest potential for success in stabilizing fuel costs.

EPRI has agreed to defer our dues payment for 3 month, at which time the President will review the payment again.

Discussions have been held with system managers, counsel, our lobbyist and the State Wide Manager regarding legislation to eliminate state regulation. It is clear that commitments made by many to legislators and the Commission last year must be honored. Territorial protection and eminent domain powers are valuable to all and must be continued. The Consultant has a lot of studying to do of the present law, regulations and past rate cases before being ready to meet again on new language. The best solution may be to eliminate rate regulation or to add language that gives latitude to the commission allowing it to approve cost recovery of present day expenditures.

Work continues on preparation of MVP-2. It will be available for the Board's September meeting.

EAST KENTUCKY POWER COOPERATIVE, INC.

**EXECUTIVE SESSION PORTION OF THE
MINUTES OF BOARD MEETING
SEPTEMBER 12, 2006**

Following is the Executive Session portion of the regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. ("EKPC") held at the Headquarters Building, 4775 Lexington Road, Winchester, Kentucky, on Tuesday, September 12, 2006, which began at 1:00 p.m. EDT, pursuant to proper notice.

EXECUTIVE SESSION

At 1:35 p.m. the Board Chairman asked for the meeting to go into Executive Session, and a motion was made by P. D. Depp, seconded by E. A. Gilbert, and passed to do so. Remaining for the Executive Session were Directors, Alternate Directors, Roy Palk, Richard Byrne, and for a portion of the session, Doug Oliver. Gerald Hayes and Mike McGuirk of Warren RECC also remained. Della Damron stayed to assist with the minutes. The purpose of the Executive Session was for Consultant Richard Byrne to present his September 12 reports and for Doug Oliver of Human Resources to review the EKPC Employee Benefits Cost Reduction Proposal and the 2006-2007 proposed Wage and Salary recommendations.

Report of Consultant Richard Byrne

EKPC Consultant Richard Byrne distributed and reviewed his reports (copies attached) as follows:

- Progress Report memo to President, dated September 12, 2006,
- EKPC Maximum Value Project—Consultant Report MVP-2 (Issues 11-15),
- MVP-3—Rate Disparity—Its Causes and Amelioration, and
- MVP-4—The Culture of the Organization.


It was the consensus of the Board that Richard Byrne prepare a list of items on which he feels the Board should be focusing and his recommendations for Board changes.

Presentation of EKPC Employee Benefits Cost Reduction Proposal and the 2006-2007 Proposed Wage and Salary Recommendations

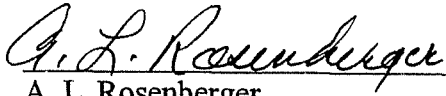
Doug Oliver, HR Vice President, distributed and reviewed "EKPC Employee Benefits Cost Reduction Proposal" which he also presented to the Operations, Services & Support Committee meeting earlier.

There being no further business, the Chairman requested and a motion was made, seconded, and passed, to adjourn the Executive Session and the regular Board meeting at 3:20 p.m.

Approved:



R. Wayne Stratton
Chairman of the Board



A. L. Rosenberger
Secretary

Date: *December 5, 2006*

September 12, 2006

To: President

From: Consultant

Subject: Progress Report

Issues report MVP-2 has been completed and is to be discussed with the Board today.

The search for the individual to fill the new position of Executive Vice President and Chief Operating Officer has been given high priority. Several candidates have been identified, interviews are in progress and a selection made by the end of the month. If the selected candidate and EKPC can agree to terms the person could be on board as early as November 1st. It is very important to stress again that the candidate must have the proper qualifications to be successful in filling this position. Innovativeness and management style are equally as important as utility experience.

Human Resources have presented a revised benefit package for new and existing employees for the President to consider. Work continues on assessing the impacts of implementing an early retirement package. It is unlikely that implementing an early retirement package will be economically feasible in 2006 because all costs of such a package would have to be booked this year which could have an impact on certain financial tests.

Work is nearing completion of several white papers the President will need to open negotiations with suppliers and/or potential partners for EKPC's fuel and power needs.

Paper MVP-FUEL-1 addresses potential long-term arrangements to provide high sulfur coal to our scrubbed units. Several suppliers

will be identified along with intelligence on their business needs. General contract parameters will be identified. A recommended milestone schedule from contract inception to completion will be provided.

Paper MVP-FUEL-2 addresses partnering with other large coal users for combined purchasing power. Similar information will be provided as in MVP-FUEL-1 above.

Paper MVP-FUEL-3 addresses partnering with local gas suppliers to obtain firm supplies through displacement and storage arrangements.

Paper MVP-FUEL-4 addresses hedging of coal prices. Strategies, impacts on fuel adjustment cost, regulation changes needed and a milestone schedule will be provided. This effort is due to be completed by staff by mid-December.

Paper MVP-GEN-1 addresses potential partnering with Peabody on its Thoroughbred plant. Parties needs and business objectives will be identified with the intent of finding mutually beneficial arrangements. Necessary data and schedules are to be included on this and papers discussed below.

Paper MVP-GEN-2 addresses partnering with Big Rivers, EON and OMU for backup arrangements.

Paper MVP-GEN-3 addresses partnering with numerous entities for future power supply needs.

A study is well under way to investigate the economic and operational benefits and drawbacks of EKPC's participation in an ISO. The study will also address the same issues and the functional practicalities of Kentucky forming its own transmission entity. This work will be completed by October 1st.

A recommendation on organizational structure will be presented to the President the week of September 11th.

**EAST KENTUCKY POWER COOPERATIVE
MAXIMUM VALUE PROJECT
CONSULTANT REPORT MVP-2**

ISSUE 11: INDEPENDENT SYSTEM OPERATOR (ISO)

EKPC has not fully addressed the economic and operational considerations of becoming a member of an ISO. This is no simple task and must be done without bias.

RECOMMENDATION:

EKPC should secure the services of a team of experts that fully understand the impacts of being a member of an ISO. The team should prepare a report for staff and the Board to consider when deciding whether or not to join an ISO. The report need not include a recommendation but rather provide adequate information for prudent decision making by EKPC.

ISSUE 12: FUTURE SITES FOR GENERATING PLANTS

Licensing plants will continue to be more difficult as time passes. The types of technology that will be allowed to be used will become more and more limited. Thus the sites that can be used will be fewer in number than ever before. It is very likely that the latest clean coal technology is all that will be permitted in Kentucky and nearby states and that CO₂ sequestration will be mandatory. EKPC must address this problem as soon as possible.

RECOMMENDATION:

EKPC should increase its efforts to identify and secure future plant sites. This effort should be coordinated among several G&Ts and/or IOUs that could benefit from securing sites now. This approach would make it more likely that joint ownerships and risk sharing would result later. EKPC is not big enough to simply go it alone and take all the risks in today's utility environment.

ISSUE 13: ORGANIZATIONAL STRUCTURE.

The President has asked the Consultant to review the present organizational structure and recommend appropriate changes. This work has been in progress since day one and an official report will be presented to the President that will include recommended changes.

ISSUE 14: STRATEGIC PLAN.

The President has requested the Consultant to review EKPC strategic plan and recommend necessary changes. The entire strategic plan is in need of rethinking and updating. A strategic plan should be a living document that is constantly in need of revision. EKPC's plan should span a period of 25 years. Some will say it is a waste of time to look out so far, that we can't even be sure what we will be doing in 2 or 3 years. Although the plan becomes less specific in its outer years one should at least define what our alternatives are and set dates when decisions have to be made. The new participative approach to planning and decision making that is being implemented will result in a useful strategic plan that all senior executives have knowledge of and have bought into somewhere along the way.

ISSUE 15: BOARD OF DIRECTORS MATTERS

Some of the EKPC Board members have requested that the Consultant comment on his observations of the Board's practices. The board is clearly performing the fiduciary responsibilities that it is charged with. The Board does need to update the policies that it functions under and concentrate more time on policy issues rather than matters that are usually delegated to staff.

The Board should appraise its own performance at least once every 3 years. This is usually done with the assistance of a facilitator.

The Consultant will perform a review of and recommend changes in the Board policies, committee responsibilities and delegations if the Board so requests.

CONSULTANT SPECIAL REPORT

MVP-3

EAST KENTUCKY POWER COOPERATIVE

RATE DISPARITY

ITS CAUSES AND AMELIORATION

The wholesale power costs of EKPC are significantly higher than the power costs of its regional competitors. The Consultant has been asked to examine this problem, identify the root causes of the difference and to recommend action to narrow the cost differential.

There are a few Board members and managers that believe the rate disparity is due to mismanagement of EKPC. It is believed by some that staffing levels are too high, that plant construction has been gold plated, that operations costs are above industry benchmarks and the day-to-day operation of the electrical system is sometimes less than desired.

The Consultant has recommended changes that if adopted will enhance your G&T economically and operationally. Clearly any company will always be able to function better if innovative ideas and higher efficiencies are implemented. In other words staff can and should always strive for improvement. However, even if one assumes the worst about past decisions and performance and that business matters were performed in a functionally better way the rate disparity would be little different today.

For example, assume your staffing levels were 10% lower than they are. The payroll would be in the order of \$5,000,000.00/year lower. This would have the effect of lowering power costs by approximately 0.4 mills.

Assume that the construction through the years has been gilded by \$50,000,000.00. The annual debt service impact would be approximately \$7,000,000.00/year. The impact on power would be another 0.5 mills.

Clearly one can see that there is another overriding driving force behind the rate differential. In order to truly address the issue one must examine the differences between EKPC and KU. KU has a significantly different consumer base than EKPC. That difference can be best seen by comparing load factors. KU's load factor is over 65%. EKPC's load factor is 52%. If EKPC were serving the same load that KU has, with the same resources that it operates today, EKPC power costs would be in the order of 42.5 mills.

In order for EKPC to close the gap it must make a drastic improvement in load factor. The solution will take years to accomplish. EKPC could make a significant improvement by merging with Big Rivers. Aggressive load management and economic development programs will be necessary to realize improvements.

EKPC will always operate as inexpensively as it can without sacrificing reliability or acting imprudently. It is the cooperative way. Everyone is doing their best to keep costs down. Cost reductions are simply not the full answer.

9-12-06
Executive Session
Board Mtg.
(Confidential)

CONSULTANT'S SPECIAL REPORT

MVP-4

EAST KENTUCKY POWER COOPERATIVE

THE CULTURE OF THE ORGANIZATION

The following report discusses the existing culture of the EKPC's Board, President and staff and offers suggestions on how some culture changes could benefit the organization.

Your President is a person that plays a leadership role in local, regional and national affairs of the electric cooperative program. He is well known and respected by his peers across the country. Participation in the electric cooperative program, especially at the national level, assures that the business interests of EKPC are represented. Such representation is placing ever increasing time demands on the President and is absolutely necessary to minimize your costs of producing electricity. Only the President is fully aware of the great value that is gained by these efforts.

Your President's approach to management is clearly "up and out" rather than "down and in". He believes in people and their ability to grow and be of increasing value to the organization and themselves. He chooses to empower staff to make as many decisions as he deems prudent. Staff enjoys the delegation given to them and typically is able to deal with day-to-day decision making very successfully. However, staff has developed into separate business entities that make excellent business decisions for their business units that may not be the best for EKPC and/or its

members. Given the size and complexity of EKPC's operation and the increasing demands on the President's time to be everywhere at once, the decision to create a position of Executive Vice President (EVP) / Chief Operating Officer (COO) is excellent. The EVP will have the time to stimulate open discussion among staff on strategic issues and have the responsibility to balance business unit interests for the benefit of the members. Silos will disappear and decisions will be made on a more expedited basis. The EVP with proper delegation will have the authority to hold staff accountable for timely completion of assigned tasks.

The EKPC Board is dedicated and committed to performing its fiduciary responsibility. In a previous report it has been recommended that the Board review how it can function better by spending more of its time on policy matters and less on the daily business issues. The Board has carefully addressed strategic issues over time through its committees and during its meetings. Board decisions have been based on thorough information provided by staff and have been prudent as evidenced by the Public Service Commission oversight.

Operation (Purs
9-12-06
and
Board-Expansion
9-12-06

EKPC Employee Benefits Cost Reduction Proposal

- Objective:
 - Benchmark member coops & similar G&T's
(See Attachment A & B)
 - Reduce the cost of benefits as a percentage
of payroll over time

- Approach:
 - Design a benefit package for new employees
 - Modify current benefit package for existing
employees

Proposed Benefit Plan for “New” Employees Effective 01/01/07

- Eliminate Defined Benefit Plan
- Create new 401k with employer contributions and greater matching
- Require medical contributions for both employee & dependents
- Modify LTD program to reduce costs
- Change Retiree Medical & Term Life

“New” Employee Benefit Package

Effective 01/01/07 Summary

01/01/07

<u>Benefit</u>	<u>2005 Costs</u>	<u>“New” Employee</u>
Retirement	15.42%	0.00%
Term & Group Life	0.56%	0.57%
Medical Ins.	12.86%	10.50%
Dental/Vision	0.39%	0.00%
EAP	0.04%	0.05%
LTD	0.99%	0.74%
401k	1.61%	10.00%
Paid Leave	12.00%	11.67%
Government Mandates	<u>7.37%</u>	<u>7.18%</u>
TOTAL	<u>51.25%</u>	<u>40.71%*</u>

*Based on 2006 annualized costs as a % of gross wages

Modified Benefit Package for

“Current” Employees

(Same Benefits as “new” employees on
medical, and disability)

- Require employee contributions – medical
- Increase drug co-pays
- Increase plan deductible
- Increase max out-of-pocket limit
- Change LTD Carrier

Medical Contributions – Impact Current Employees

	2006		2007
	Monthly	Annual	Annual
Employee Only	\$16.38	\$196.56	\$235.87
Emp. & Spouse	\$40.95	\$491.40	\$589.68
Emp. & Children	\$43.85	\$526.40	\$631.68
Emp. & Family	\$68.42	\$820.98	\$985.18

- 2007 Contributions - Employee (5%)
Dependents (7.5%)
- 2008 Contributions – Employee (10%)
Dependents (15%)

** Total revenue generated: 2007- \$463,000

Medical Contributions – Impact New Employees

Projected	2006		2007
	Monthly	Annual	Annual
Employee Only	\$32.76	\$393.12	\$471.74
Emp. & Spouse	\$81.90	\$982.80	\$1,179.36
Emp. & Children	\$87.69	\$1,052.80	\$1,263.36
Emp. & Family	\$136.83	\$1,641.96	\$1,970.35

- 2007 Contributions - Employee (10%)
Dependents (15%)

** Total revenue generated: 2007- unknown

Compensation Cost Reductions

- **3% General Increase only; effective 11/01/06 (no merit, and, no structure adjustments)**
- **Promotional increases may be granted for certain situations**

Compensation Savings

• 5-Year Trend	=	3.2%
• 3% General Increase	=	\$140,000
• Merit Budget Eliminated	=	\$441,000
• Structure Adj. Eliminated	=	<u>\$ 35,000</u>
Total 1-Year Savings	=	\$616,000

Merit Budget Includes promotions, skill based increases and merit adjustments

Total Savings

Benefits:

• Medical Savings	
– Employee Contributions	\$ 463,000
– Medical Plan Design Changes	\$ 550,000
– Drug Plan Design Changes	\$ 350,000
– LTD Savings	<u>\$ 306,000</u>

Total Projected Annual Benefits Savings: \$1,669,000

Compensation:

• 1-Year Savings	<u>\$ 616,000</u>
------------------	-------------------

Total \$2,285,000

Concerns

- Employee morale
- Recruitment & Retention
- Union Activity
- Loss of Productivity
- Benchmarking indicates that EKPC benefits costs are in line with Distribution Cooperatives & G&T's

MEMBER DISTRIBUTION COOPERATIVE BENEFITS SURVEY

(2005 Benefit Costs Paid by the Cooperative as a % of 2005 Gross Wages)

Benefit Listing:	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Cooperative Name:														
Defined Benefit Plan	0.00%	12.30%	5.25%	14.00%	13.00%	14.00%	10.83%	13.12%	9.20%	11.00%	9.15%	8.00%	11.11%	15.16%
Defined Contribution Plan (401k)	8.00%	1.60%	6.11%	0.40%	0.60%	1.00%	1.68%	1.70%	1.70%	1.80%	1.38%	2.50%	1.69%	1.86%
Term & Group Life Ins.	0.30%	0.80%	0.97%	1.00%	0.70%	1.00%	0.59%	0.58%	1.10%	1.10%	0.53%	0.80%	0.02%	0.51%
Acc. & Bus. Travel Ins.	0.70%	0.00%	0.00%	0.20%	0.03%	0.08%	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%	0.02%	0.00%
Medical Ins.	21.00%	14.10%	17.78%	5.00%	17.90%	31.00%	21.25%	20.20%	24.20%	13.50%	12.84%	14.60%	14.01%	17.34%
Dental Insurance	0.00%	0.50%	1.06%	1.00%	1.30%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.80%	0.00%	0.58%
Vision Insurance	0.00%	0.20%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.07%	0.00%	0.00%	0.08%	0.00%
EAP	0.50%	0.10%	0.00%	0.00%	0.00%	0.00%	0.10%	0.00%	4.60%	0.00%	0.34%	0.70%	1.00%	0.61%
LTD	0.40%	0.90%	0.99%	6.00%	0.38%	0.00%	0.88%	0.82%	0.00%	0.11%	0.11%	0.11%	0.00%	0.00%
STD	8.00%	7.50%	7.57%	6.00%	0.39%	0.21%	0.40%	0.38%	7.30%	7.65%	5.05%	7.40%	7.96%	7.35%
FICA	4.00%	3.30%	2.90%	4.00%	2.60%	4.00%	7.50%	3.18%	3.10%	2.50%	1.96%	4.60%	3.18%	4.38%
Workers' Comp.	0.10%	0.20%	0.22%	7.00%	0.20%	0.31%	0.21%	0.23%	0.20%	1.00%	0.11%	0.10%	0.18%	0.22%
Unemp. Comp.														
Other														
Vacation	7.00%	6.40%	3.62%	7.00%	5.30%	7.00%	5.11%	5.89%	5.70%	3.00%	3.53%	7.30%	6.82%	6.44%
Holidays	3.00%	2.70%	2.86%	2.10%	2.80%	3.00%	3.15%	3.15%	2.70%	2.00%	1.89%	3.90%	3.53%	2.84%
Sick Leave	4.00%	2.40%	4.90%	6.00%	2.80%	3.88%	4.76%	2.01%	3.00%	0.45%	2.49%	0.00%	2.92%	4.26%
Personal Leave	0.20%	0.00%	0.00%	n/a	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Funeral Leave	0.30%	0.10%	0.00%	n/a	0.07%	0.06%	0.06%	0.09%	0.30%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.10%						0.07%	0.00%						
Total Benefit Costs included in Gross Wages:	14.60%	11.60%	11.38%	15.10%	11.97%	13.88%	14.15%	11.14%	11.70%	5.45%	9.96%	11.20%	13.27%	13.54%

2005 G&T Benefits Survey

<u>G&T</u>	<u>% of Salary</u>	<u>G&T</u>	<u>% of Salary</u>
EKPC	51%*	East Ri	47%
Ala	32%	Kamo	50%
Ark	36%	Kan	51%
Assoc	51%	Sem	50%
Big R	52%	Sunfl	50%
Dairyl	45%	Tri-S	49%
Deser	47%	WestF	51%

*2005 Actual

EAST KENTUCKY POWER COOPERATIVE, INC.**EXECUTIVE SESSION PORTION OF THE
MINUTES OF BOARD MEETING
OCTOBER 3, 2006**

Following is the Executive Session portion of the regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. ("EKPC") held at the Headquarters Building, 4775 Lexington Road, Winchester, Kentucky, on Tuesday, October 3, 2006, which began at 11:00 a.m. EDT, pursuant to proper notice.

EXECUTIVE SESSION

At 12:05 p.m. the Board Chairman called for the Board to go into Executive Session. Remaining for the Executive Session were Directors, Alternate Directors, Roy Palk, and Dale Henley (Mr. Henley stayed for a portion of the meeting). Della Damron stayed for a portion of the meeting to assist with the minutes. The purpose of the Executive Session was for a more in-depth update on the EPA lawsuits and the annual performance appraisal review of the President and Chief Executive Officer.



President & CEO Performance Appraisal Review Process –Chairman Stratton noted that Roy Palk talked with the Board Officers regarding the P&CEO evaluation process in general. The plan for 2007 will be to have a more refined evaluation process; but this current session will be to have a dialog, with the Board giving its expectations and Mr. Palk answering. Mr. Palk then came to floor, noting the information he sent to the Board with regard to other G&Ts' processes on this subject.

Kentucky Co-op Program - Mr. Palk talked about his discussions with Ron Sheets, and others regarding how to reduce costs and make the Kentucky cooperative program more efficient.

EKP Consultant Richard Byrne – Mr. Palk noted that Dick Byrne has returned to Florida. He will be providing a Summary Report and also report in Board policy issues.

EKP Chief Operating Officer ("COO") – Seven candidates have been interviewed; five internal and two external. An offer will be made to one of the candidate this week.

RFP Process – Regarding the Request for Proposal ("RFP") process, Mr. Palk said he would like to take the next outside to make more objective and credible.

Reorganization of Permitting Process – Mr. Palk said the future plans for various processes—permitting, regulatory, certifying are going forward, with permitting and compliance issues combined into one group working with the COO.


Discussion Regarding Richard Byrne's Reports – Discussion was held with various Board members and managers expressing their concerns and comments as a result of one of Mr. Byrne's report—the Culture of the Organization—which he gave in September. Bob Marshall asked that it go on record as to his disappointment in the way the situation was handled.

At this time, Roy Palk and Della Damron left the room.

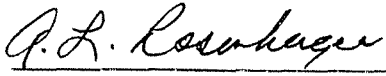
P&CEO Salary Adjustment – According to the Board Secretary, A. L. Rosenberger, a motion was made, seconded and passed with regard to a salary adjustment for Roy Palk.

There being no further business, the Executive Session and the EKPC Board meeting were adjourned at approximately 12:50 p.m.

Approved:



R. Wayne Stratton
Chairman of the Board



A. L. Rosenberger
Secretary

Date: December 5, 2006

**EXECUTIVE SESSION PORTION OF THE
MINUTES OF THE

COMMITTEE MEETING OF THE WHOLE

(BEING A PART OF THE OPERATIONS, SERVICES
AND SUPPORT COMMITTEE MEETING MINUTES)**

NOVEMBER 14, 2006

Following is the Executive Session portion of the Committee Meeting of the Whole regular meeting of East Kentucky Power Cooperative, Inc., held at the Headquarters Building, 4775 Lexington Road, Winchester, Kentucky, on Tuesday, November 14, 2006, which regular Committee Meeting of the Whole began at 9:30 a.m., EDT, pursuant to proper notice.

EXECUTIVE SESSION

Immediately following the call to order of the Committee Meeting-of-the-Whole, Board Chairman Wayne Stratton called for an Executive Session and asked for a motion. A motion was made by Wade May, seconded by Jimmy Longmire, and passed. Those designated to stay were the Directors and Alternate Directors, Roy Palk, Shelby Energy's Debbie Martin, and Warren RECC's Gerald Hayes and Director. Dale Henley stayed for a portion of the meeting. The recording secretary did not stay. At this time, everyone except those designated left the room.

EPA Update – It was reported to the recording secretary that Dale Henley provided an update regarding on-going litigation with the EPA, and the Board acted on his recommendation regarding employment of outside counsel.

President and CEO – Following the day's meeting President and CEO Roy Palk announced his decision to retire effective September 7, 2007.

Further Information – No further information regarding this Executive Session was provided to the recording secretary for inclusion in these Executive Session Minutes.

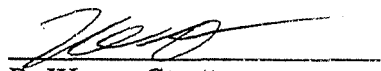
At 10:35 a.m., Chairman Stratton adjourned the Executive Session and called for a brief recess, with the Committee Meeting of the Whole reconvening at 11:00 a.m.

Executive Session Portion of the Minutes of the
Committee Meeting of the Whole

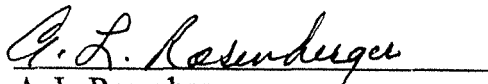
Page 2

November 14, 2006

Approved:



R. Wayne Stratton
Chairman of the Board



A. L. Rosenberger
Secretary

Date: *December 5, 2006*