EAST KENTUCKY POWER COOPERATIVE

May 2, 2007

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PUBLIC SERVICE COMMISSION

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

Re: PSC Case No. 2006-00472

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced case, an original and ten copies of the East Kentucky Power Cooperative, Inc. ("EKPC") Plan of Correction, as filed with the Rural Utilities Service. This information is filed to complete EKPC's response to Request No. 1 of the data requests made in the course of the hearing in this case on March 22, 2007.

Very truly yours,

Charles A. Lile

Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Parties of Record

EAST KENTUCKY POWER COOPERATIVE

May 1, 2007

Mr. James M. Andrew
Administrator
Rural Utilities Service
Stop 1510
1400 Independence Avenue, S.W.
Washington, DC 20250-1568

Dear Mr. Andrew:

In accordance with Section 4.15 (b)(4) of the RUS Mortgage Agreement, EKPC hereby sets forth the actions to be taken to achieve the required TIER and DSC in the future.

EKPC's plan of remedy basically consists of two parts—reducing costs and increasing rates.

In 2006, EKPC initiated a cost-reduction program to either defer or eliminate $20,000,000 of expense in each of years 2006 and 2007. EKPC reduced 2006 expenditures by $16,051,000 (including $13,726,000 of budget reductions and $2,325,000 of expense deferrals) and, to date, has reduced 2007 expenditures by $27,511,000 (including $17,123,000 of budget reductions and $10,388,000 of expense deferrals). EKPC will continue these cost-reduction efforts into 2008 and 2009.

The second phase is to petition the Kentucky Public Service Commission (KPSC) to allow EKPC to raise rates. EKPC has prepared a rate case requesting a $43,400,000 rate increase on an annual basis. EKPC has received an interim rate increase of $19,000,000 with an effective date of April 1, 2007. This will generate additional revenue of approximately $8,000,000 in 2007. The KPSC has suspended ruling on the remainder of the increase for five months, making it effective as late as September 1, 2007. It is also anticipated that EKPC may need to file two or three more rate cases over the next four or five years in order to ensure that EKPC's finances stay on a strong footing.

For the year 2007, EKPC's budget projects a net margin of $23.7 million. Assuming this level of net margin is achieved, the 2007 TIER and DSC are projected to be 1.19 and 1.05, respectively.

If you should need any further information, please do not hesitate to call me.

Sincerely yours,

Robert M. Marshall
President & Chief Executive Officer

fjo/ka

C: James Newby
Victor Vu
William Railey

Bcc: Bob Marshall
Dave Eames
Frank Oliva
Thea Kamber

EAST KENTUCKY POWER COOPERATIVE

April 26, 2007

Mr. James M. Andrew
Administrator
Rural Utilities Service
Stop 1510
1400 Independence Avenue, S.W.
Washington, DC 20250-1568

Dear Mr. Andrew:

As EKPC staff has previously discussed with you and RUS staff, EKPC did not meet the TIER and DSC ratio requirements in the Mortgage Covenants for the three-year period ended December 31, 2006. We have previously sent to you a letter outlining the causes of EKPC's inability to meet Mortgage Covenants (see letter dated June 1, 2006, from David Eames, attached).

Shown below are the calculations for TIER and DSC for the years 2004, 2005, and 2006:

For 2004: Mortgage Agreement

TIER

(a) Net Margins	(27,267,516)			
(b) Interest on Long Term Debt	53,923,424			
TIER = (a) + (b) / (b) =	26,655,908	/	53,923,424=	**0.494**

DSC

(a) Depreciation	38,994,125
(b) Interest on L-T Debt	53,923,424
(c) Margins	(27,267,516)
(d) Interest + Principal	91,548,864
DSC = (a) + (b) + (c) / (d) =	**0.717**

For 2005: Mortgage Agreement

TIER

(a) Net Margins	(46,007,522)			
(b) Interest on Long Term Debt	69,570,845			
TIER = (a) + (b) / (b) =	23,563,323	/	69,570,845=	**0.339**

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DSC

(a) Depreciation	52,037,571
(b) Interest on L-T Debt	69,570,843
(c) Margins	(46,007,522)
(d) Interest + Principal	114,243,781
DSC = (a) + (b) + (c) / (d) =	**0.662**

For 2006: Mortgage Agreement

TIER

(a) Net Margins	11,173,989			
(b) Interest on Long Term Debt	84,634,106			
TIER = (a) + (b) / (b) =	95,808,095	/	84,634,106=	**1.132**

DSC

(a) Depreciation	39,384,187
(b) Interest on L-T Debt	84,634,106
(c) Margins	11,173,989
(d) Interest + Principal	138,141,727
DSC = (a) + (b) + (c) / (d) =	**0.979**

EKPC's plan to remedy this situation is being sent to you under separate cover.

If you should need any further information, please do not hesitate to call me.

Sincerely yours,

Robert M. Marshall
by dge

Robert M. Marshall
President & Chief Executive Officer

Enclosure
fjo/ka

C: James Newby
Victor Vu
William Railey

Bcc: Bob Marshall
Dave Eames
Frank Oliva
Thea Kamber

EAST KENTUCKY POWER COOPERATIVE

June 1, 2006

Mr. Victor Vu
Director, Power Supply Division
Rural Utilities Service
1400 Independence Avenue, SW
Washington, DC 20250-1568

Dear Mr. Vu:

Ms. Marina Chu of the Power Supply Division has requested us to furnish a financial review of the years 2004 and 2005, as well as an outlook for 2006 regarding East Kentucky Power Cooperative.

EKPC reported a $27.3 million net deficit for the year ended December 31, 2004. One major event primarily triggered the deficit. On July 1, 2004 Spurlock Unit #1 was forced off-line when a control system failure caused an overheated condition in the generator stator windings, which damaged the insulation and required the stator to be rewound. Spurlock Unit #1 was off-line until October 27. The net cost of this outage was over $38 million, including $18 million of actual maintenance costs and $20 million of the net replacement cost of fuel not recovered under the Kentucky Fuel Adjustment Clause (FAC) provision. This unplanned unit outage, affecting EKPC's 2004 financial results, was a one-time event. All EKPC debt covenants remained secure and no events of default occurred.

In early 2006, EKPC received Notices of Violations (NOVs) from the U.S. Environmental Protection Agency and the Commonwealth of Kentucky Environmental and Public Protection Cabinet alleging violation of the Clean Air Act relating to EKPC's Dale Units 1 & 2 located in Ford, Kentucky. Dale Units 1 & 2 are EKPC's oldest coal-fired units built in 1954.

Under Phase II of the emission restrictions of the Clean Air Act, owners of generation plants that have more than 25 MW capacities are required to record, report, and provide for the emissions from the plant. EKPC replaced the turbines and generators for these two units in the late 1990's and, as a result of the contract performance specifications, believed the nameplate capacity of the units was 24 MW each. The NOVs allege that, using a KVA rating calculation method (which uses the KVA number on the nameplate as multiplied by a power factor), the Dale Units 1 & 2 actually have a rating of 27 MW each. Based on the KVA rating, the Dale Units 1 & 2 would be covered under the Clean Air Act. Therefore,

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A Touchstone Energy Cooperative

EKPC was cited as being required to provide SO_2 and NOx emissions for these two units retroactive to 2000.

Based on the reviews of the NOV conducted by its auditors and external counsel, EKPC determined that it needed to record a non-cash liability on its 2005 balance sheet to reflect the potential impact of this violation. EKPC does not expect any cash flow impact until the issue is resolved, which is not expected any time soon. EKPC believes that it can provide sufficient defenses to reduce or eliminate a significant amount of this potential liability.

A financial review by the 16 lenders to EKPC under an existing $650,000,000 revolving Credit Agreement was conducted and, as a result, the financial institutions reaffirmed their commitment to the Credit Agreement. EKPC remains in good standing with all its lenders. EKPC is currently in compliance with all its debt covenants and the $650,000,000 revolving Credit Facility is fully available for EKPC's use.

EKPC has budgeted a net margin of $5.0 million for 2006. EKPC's first quarter results for 2006 show a net margin of $12.3 million, which is $1.4 million ahead of budget.

EKPC has taken several steps toward improving its financial performance for 2006:

- A cost-containment program has been undertaken with the goal to eliminate operating costs and increase margins.
- EKPC continues to review the possible justification for a base rate increase in the near future.
- In July 2005, EKPC and its member systems instituted an Environmental Compliance Surcharge, pursuant to KRS 278.183, in order to recover costs incurred due to the Clean Air Act requirements.
- EKPC has hired former Buckeye Power CEO Richard "Dick" Byrne to function as EKPC's interim chief operating officer. Mr. Byrne will continue working on a part-time basis for several months. He will be working with EKPC CEO Roy Palk, to develop a work plan to identify additional cost containment initiatives, further define the scope of the COO's work and review corporate strategies.
- Mr. Byrne and CEO Roy Palk will determine a reasonable timeframe to achieve the work plan to reduce wholesale power costs.
- Mr. Palk and Mr. Byrne will report the work plan and the anticipated timeframe for reducing wholesale power costs to the EKPC Board by the July Board meeting.

Victor Vu
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June 1, 2006

Upon receipt of this letter, please feel free to contact me to schedule a follow-up conference call. In the meantime, do not hesitate to call with any questions.

Sincerely,

David G. Eames

David G. Eames
Vice President, Finance

dge/fjo/ka