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PUBLIC SERVICE  
COMMISSION

August 8, 2008

HAND DELIVERED

Ms. Stephanie L. Stumbo  
Executive Director  
Public Service Commission  
Post Office Box 615  
211 Sower Boulevard  
Frankfort, KY 40602

Re: Case No. 2008-00115

Dear Ms. Stumbo:

Please find enclosed for filing with the Commission in the above-referenced case an original and ten copies of the Joint Motion of East Kentucky Power Cooperative, Inc. ("EKPC") and Kentucky Industrial Utility Customers, Inc. ("KIUC") for Approval of a Settlement Agreement in this case. Attached to that Motion, as Exhibit 1, is the EKPC and KIUC Settlement Agreement, and attached as Exhibit 2 is Supplemental Testimony of David G. Eames on behalf of EKPC.

Very truly yours,



Charles A. Lile  
Corporate Counsel

Enclosures

Cc: Michael L. Kurtz, Esq.  
Kurt J. Boehm, Esq.

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AUG 08 2008

PUBLIC SERVICE  
COMMISSION

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

**THE APPLICATION OF EAST KENTUCKY  
POWER COOPERATIVE, INC., FOR  
APPROVAL OF AN AMENDMENT TO ITS  
ENVIRONMENTAL COMPLIANCE PLAN  
AND ENVIRONMENTAL SURCHARGE**

**Case No. 2008-00115**

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**JOINT MOTION FOR APPROVAL OF  
SETTLEMENT AGREEMENT**

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This Joint Motion for Approval of a Settlement Agreement is submitted to the Public Service Commission (the "Commission"), by and between East Kentucky Power Cooperative, Inc., (hereinafter referred to as "EKPC"); and Kentucky Industrial Utility Customers, Inc. (hereinafter referred to as "KIUC"), hereinafter collectively referred to as the "Parties." In support of this Motion, the Parties hereto state to the Commission as follows:

1. The Parties to this Motion have participated in extensive discovery, reviewed EKPC's Application and pre-filed direct testimony and KIUC's prepared testimony, participated in settlement conferences with the Commission staff on July 23 and July 30, 2008, and engaged in additional discussions by teleconference. The Parties have discussed and resolved all issues in the case, including

the amount of increase in the surcharge, the timing and the rate of return, and submit the Settlement Agreement, attached hereto as Exhibit 1, as a full and unanimous settlement of the case.

2. Supplemental Direct Testimony of David G. Eames, attached hereto as Exhibit 2, explains the basis of the Settlement Agreement and the issues resolved between the Parties. The Parties contend that the terms of the Settlement Agreement comply with the requirements of KRS §278.183, in that they represent a reasonable and cost-effective plan and surcharge for compliance with applicable environmental requirements, and a reasonable return on such compliance-related capital expenditures.

3. In addition, the adoption of this Settlement Agreement will eliminate the need for the Commission and the parties to expend significant resources in litigation of this proceeding, and eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final order herein. It is the position of the parties hereto that the Settlement Agreement is supported by sufficient and adequate data and information, and is entitled to approval by the Commission.

WHEREFORE, The Parties hereto hereby move the Commission to accept and approve the Settlement Agreement of the Parties, and to enter an order to that effect in this case.

Respectfully submitted



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Charles A. Lile, Esq.  
Corporate Counsel  
4775 Lexington Road  
P. O. Box 707  
Winchester, KY 40392-0707

**COUNSEL FOR  
EAST KENTUCKY POWER COOPERATIVE, INC.**

*Michael L. Kurtz*  
*by CJA with authorization*

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Michael L. Kurtz, Esq.

Kurt J. Boehm, Esq.

**BOEHM, KURTZ & LOWRY**


36 East Seventh Street, Suite 1510

Cincinnati, Ohio 45202

**COUNSEL FOR KENTUCKY INDUSTRIAL  
UTILITY CUSTOMERS INC.**

**CERTIFICATE OF SERVICE**

This is to certify that an original and 10 copies of the foregoing Joint Motion for Approval of Settlement Agreement in the above-styled case were delivered to the office of Stephanie L. Stumbo, Executive Director of the Public Service Commission, 211 Sower Boulevard, Frankfort, KY 40601, and copies were mailed to Michael L. Kurtz, Esq., and Kurt Boehm, Esq., 36 East Seventh Street, Suite 1510, Cincinnati, Ohio 45202, this 8<sup>th</sup> day of August, 2008.

  
\_\_\_\_\_  
Charles A. Lile

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Exhibit AUG 08 2008

PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

THE APPLICATION OF EAST KENTUCKY  
POWER COOPERATIVE, INC., FOR  
APPROVAL OF AN AMENDMENT TO ITS  
ENVIRONMENTAL COMPLIANCE PLAN AND  
ENVIRONMENTAL SURCHARGE

Case No. 2008-00115

---

SETTLEMENT AGREEMENT

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This Settlement Agreement, is entered this 6<sup>th</sup> day of August, 2008, by and between East Kentucky Power Cooperative, Inc., (hereinafter referred to as "EKPC") and Kentucky Industrial Utility Customers, Inc. (hereinafter referred to as "KIUC").

**WITNESSETH:**

WHEREAS, EKPC filed an Application with the Kentucky Public Service Commission (the "Commission") on March 28, 2008, which was subsequently accepted for filing on April 28, 2008, for approval of an amendment of its Environmental Compliance Plan and Environmental Surcharge to add new environmental compliance projects, effective on May 1, 2008.

WHEREAS, The Commission, by order dated April 24, 2008, set the effective date of the proposed amendment for October 27, 2008, based on the statutory six month review period running from the April 28, 2008 acceptance date of the Application.

WHEREAS, KIUC was made a party to PSC Case No. 2008-00115 by an order of the Commission dated May 12, 2008.

WHEREAS, the Parties to the above-referenced case participated in extensive discovery, reviewed EKPC's pre-filed direct testimony and KIUC's prepared testimony from Lane Kollen, participated in settlement conferences with the Commission staff on July 23 and July 30, 2008, and engaged in additional discussions by teleconference.

WHEREAS, the Parties have discussed and resolved the issues of the amount of the increase in EKPC's Environmental Surcharge, the rate of return, the timing of such changes and all other issues in the case.

WHEREAS, The Parties desire to settle the issues in the above-referenced case based on the terms contained in this Settlement Agreement.

NOW, THEREFORE, for and in consideration of the premises and conditions set forth herein, the Parties hereby agree, as follows:

1. The Parties agree that EKPC's Base Environmental Surcharge Factor ("BESF") shall be increased by \$1,012,000, to reflect the Times Interest Earned Ratio ("TIER") return currently recovered in base rates on Construction Work In Progress ("CWIP") amounts relating to projects existing as of September 30, 2006, and added to EKPC's Environmental Compliance Plan in this case.
2. The Parties agree that EKPC's TIER for the Environmental Surcharge shall be raised to 1.35, subject to EKPC's agreement to credit the surcharge in January 2009 by any amount of EKPC net margins for the twelve months ending December 31, 2008 that exceeds a 1.35 TIER return, up to a maximum amount of \$3,500,000.
3. The Parties agree that EKPC will certify to the Commission, and EKPC member system Owen Electric Cooperative will also certify to the Commission, that they will make no proposals in this case, or in PSC Case No. 2007-00378, to change the existing methodology for the allocation of the Environmental Surcharge to customers.
4. The Parties agree that the changes to EKPC's Environmental Compliance Plan and Environmental Surcharge will be effective for service rendered on and after November 1, 2008, to facilitate EKPC's billing cycle.
5. All other changes to EKPC's Environmental Compliance Plan and Environmental Surcharge shall be made as proposed in EKPC's Application.
6. The Parties request that the Commission suspend the remainder of the Procedural Schedule established for this case, and schedule appropriate proceedings for review and approval of this Settlement Agreement.
7. The Parties agree that if the Commission materially alters this Settlement Agreement, then either Party to this Agreement may elect to withdraw its consent to this Settlement Agreement and the Settlement

Agreement will be null and void. Before withdrawing from the Settlement Agreement the Parties agree to renegotiate in good faith to try to reach a supplemental settlement.

8. This Settlement Agreement is subject to the approval of the Commission and shall not be deemed to affect the jurisdiction of the Commission or to in any way supersede Chapter 278 of the Kentucky Revised Statutes.
9. The Parties agree that this Settlement Agreement is reasonable given EKPC's status as an electric power cooperative, owned by its members, rather than an investor-owned utility, and the particular circumstances in this proceeding. Nothing in this settlement shall be considered as precedent in future cases before the Commission.
10. Upon formal adoption and acceptance by the Commission of this Settlement Agreement as a full resolution of EKPC's proposed amendment of its Environmental Compliance Plan and Environmental Surcharge, the Parties agree that no petition for rehearing, pursuant to KRS §278.400, nor any appeal, pursuant to KRS §278.410, will be filed by either Party regarding this case.

IN WITNESS WHEREOF, the duly authorized counsel for the Parties have affixed their signatures to this Settlement Agreement on the date first above written.





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Charles A. Lile, Esq.  
Corporate Counsel  
4775 Lexington Road  
P. O. Box 707  
Winchester, KY 40392-0707

**COUNSEL FOR  
EAST KENTUCKY POWER COOPERATIVE, INC.**

A handwritten signature in black ink, appearing to read "Michael L. Kurtz", written over a horizontal line.

Michael L. Kurtz, Esq.

Kurt J. Boehm, Esq.

**BOEHM, KURTZ & LOWRY**

36 East Seventh Street, Suite 1510

Cincinnati, Ohio 45202

**COUNSEL FOR KENTUCKY INDUSTRIAL  
UTILITY CUSTOMERS INC.**

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PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY )  
POWER COOPERATIVE, INC., FOR APPROVAL ) CASE NO.  
OF AN AMENDMENT TO ITS ENVIRONMENTAL ) 2008-00115  
COMPLIANCE PLAN AND ENVIRONMENTAL )  
SURCHARGE )

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SUPPLEMENTAL TESTIMONY OF DAVID G. EAMES  
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

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**Q. Please state your name, business address and occupation.**

A. My name is David G. Eames, East Kentucky Power Cooperative (“EKPC”), 4775 Lexington Road, Winchester, Kentucky 40391. I am Chief Financial Officer for EKPC.

**Q. Have you previously filed prepared testimony in this case?**

A. Yes, I submitted direct testimony which was designated as Exhibit 1 to the Application filed in this case.

**Q. What is the purpose of your supplemental testimony?**

A. The purpose is to explain the circumstances and discussions which led EKPC and Kentucky Industrial Utility Customers, Inc. (“KIUC”) to enter the Settlement Agreement which is being entered in this case.

**Q. Are you sponsoring any supplemental exhibits in this proceeding?**

A. Yes. I am sponsoring Exhibits DGE-Supplemental 1 through 4.

1 DGE – Supplemental 1 is an update through June 2008, of EKPC’s rolling 12-  
2 month margins, Times Interest Earned Ratio (“TIER”) and Debt Service  
3 Coverage (“DSC”) ratio. DGE – Supplemental 2 is the same as DGE –  
4 Supplemental 1 except that the one-time book income pickup of \$15,857,516  
5 from EKPC’s settlement of a lawsuit with the Environmental Protection Agency  
6 (“EPA”), made in December 2007, has been removed from the rolling 12-month  
7 margin, TIER and DSC. DGE – Supplemental 3 is a financial analysis of EKPC’s  
8 first 6 months of 2008, plus the budget for the remaining 6 months of 2008, to  
9 give a projection of what EKPC’s 2008 actual results might be. It also calculates  
10 the minimum margins required to meet the DSC covenant in the RUS Mortgage  
11 and the Credit Facility. DGE – Supplemental 4 calculates the best 2 out of 3  
12 years TIER and DSC for the years 2006 & 2007. It also projects 2008 TIER and  
13 DSC levels, based upon the projection of EKPC year-end margins in DGE –  
14 Supplement 3.

15 **Q. Have EKPC and KIUC reached an agreement on an appropriate TIER level**  
16 **for the EKPC environmental surcharge?**

17 A. Yes, EKPC and KIUC have agreed upon the 1.35 TIER level, with commitments  
18 by EKPC to credit to the surcharge any 2008 net margins which exceed that level,  
19 up to \$3.5 million. EKPC requested a 1.35 TIER level for the surcharge, not  
20 simply because it was the level granted in EKPC’s most recent base rate case, but  
21 because EKPC’s financial difficulties, explained in detail in that case, have not  
22 improved to the point that such a TIER level is no longer needed. EKPC provided  
23 to KIUC current financial reports and budget information for the remainder of

1 2008 which demonstrate EKPC is not “over-earning”, and that it needs to receive  
2 the requested return on the surcharge in order to meet its loan covenants for 2008.

3 **Q. Has EKPC’s financial condition significantly improved over the past twelve**  
4 **months?**

5 A. While EKPC’s actual 12-month TIER levels through April 2008 seemed to  
6 indicate an improved financial situation, they do not represent a clear  
7 improvement in EKPC’s financial condition for the following reasons: The first  
8 reason is that the numbers include a one time book income pickup of \$15,857,516  
9 due to the final settlement of the EPA lawsuits. The second reason is that EKPC  
10 typically earns most of its margins in the January-March period so the numbers  
11 through April reflected above average results that EKPC had in January &  
12 February 2008. The April TIER and DSC fell from 1.44 and 1.17 to 1.19 and  
13 1.00, respectively, in June, as indicated in Exhibit DGE- Supplemental 1. If you  
14 remove the effects of the EPA settlement, which is reflected in Exhibit DGE-  
15 Supplemental 2, the June results fall to 1.04 and 0.91—clearly levels that do not  
16 reflect overearning. Another significant item that affected EKPC's results through  
17 June was the Gilbert Unit outage. EKPC absorbed \$2,000,000 in forced outage  
18 power purchase costs in June and will have to absorb around \$5,000,000 more in  
19 July. The total EKPC unrecovered forced outage costs, for the year to date  
20 through July, amounts to about \$12,500,000.

21 **Q. Does EKPC expect to earn sufficient margins in 2008 to meet its loan**  
22 **covenants?**

23 A. That is not clear at this time. Right now EKPC runs the risk of not meeting the  
24 DSC covenants of both its mortgage with RUS and the Credit Facility. Exhibit

1 DGE- Supplemental 3 shows EKPC's projection of its 2008 margins, based on  
2 actual results through June and budget information through the remainder of the  
3 year. As shown in Exhibit DGE- Supplemental 4, those projected margins would  
4 not allow EKPC to meet the RUS mortgage and Credit Facility covenants, based  
5 on the best two of the last three years. EKPC is now deferring some maintenance  
6 on its generation plants, deferring a computer software upgrade, and is reviewing  
7 other areas in hopes of reducing 2008 expenses by at least \$5,000,000.

8 **Q. What are the consequences to EKPC of failure to satisfy those loan**  
9 **covenants?**

10 A. If EKPC does not meet the loan covenants, the lenders in the Credit Facility can  
11 place EKPC in default and refuse to advance additional funds or call the loan  
12 funds outstanding. If called, the loan would be due and payable immediately.  
13 EKPC does not have the funds to repay the lenders. EKPC would also be in  
14 potential default on the RUS Mortgage and RUS could refuse to advance any  
15 more loan funds.

16 **Q. Has EKPC significantly improved its equity level since the base rate increase**  
17 **granted in PSC Case No. 2006-00472?**

18 A. No. EKPC's equity as of June 30, 2008, was 6.5%, well below the 10-12.5% goal  
19 EKPC needs to be considered a strong credit by the investment community.

20 **Q. EKPC testimony in PSC Case No. 2006-00472 stated that EKPC anticipated**  
21 **an increasing need to rely on private financing for generation projects in the**  
22 **future. Has this situation changed in any significant respect?**

1 A. No. As of today, RUS is still not lending money for coal-fired or nuclear base  
2 load generation. In addition to financing base load generation outside of RUS,  
3 EKPC will need to renew the Credit Facility to fund cash flow needs.

4 **Q. Does EKPC believe that setting a TIER level below 1.35 for the**  
5 **environmental surcharge would be an impediment to resolving its financial**  
6 **difficulties?**

7 A. Yes. The granting of a TIER of 1.35 signals to the investment community that  
8 EKPC is continuing to try to improve its financial position. It also sends the signal  
9 that the Commission recognizes the need for EKPC to have strong financials—a  
10 very strong plus for the investment community.

11 **Q. Have EKPC and KIUC reached any agreement regarding an appropriate**  
12 **adjustment to the CWIP-related interest and TIER margins, to account for**  
13 **costs being recovered in base rates?**

14 A. Yes. EKPC and KIUC agree that the total amount of CWIP-related interest and  
15 TIER margins for facilities included in this case, which was recovered through  
16 base rates, was \$3.904 million. However, this amount was reduced by \$2.892  
17 million ( $\$3.904/1.35$  TIER) through an AFUDC offset. The difference is the  
18 agreed adjustment in this case of \$1.012 million.

19 **Q. Does that adjustment resolve concerns that EKPC has attempted to recover**  
20 **both a return on Construction Work-In-Progress (“CWIP”) and on**  
21 **capitalizing Allowance for Funds Used During Construction (“AFUDC”)?**

22 A. Yes, EKPC and KIUC agree that this will address that concern.

1 **Q. Have EKPC and KIUC agreed that the requested revenue requirement**  
2 **should be reduced to reflect savings in SO2 and NOx emission allowance**  
3 **expenses which should result from the projects involved in the case?**

4 A. No. The revenue requirement in the application did not include a request for the  
5 recovery of emission allowance expense. It is recovered through a separate  
6 monthly adjustment that automatically passes the cost through the surcharge.  
7 This second adjustment will be lower because of the reduced need for allowances  
8 when the scrubbers are placed into operation. KIUC now agrees with EKPC that  
9 no reduction in EKPC's proposed revenue requirement is needed to account for  
10 those future savings.

11 **Q. Have EKPC and KIUC reached a formal settlement of the various issues**  
12 **raised by KIUC in this case?**

13 A. Yes. The proposed Settlement Agreement in this case is attached to the Joint  
14 Motion for Approval of a Settlement Agreement, as Exhibit "1." EKPC and  
15 KIUC contend that it represents an appropriate settlement of the case, and  
16 establishes reasonable rates and a cost-effective plan for EKPC's environmental  
17 surcharge.

18 **Q. Have EKPC and KIUC agreed on the appropriate effective date?**

19 A. Yes. The effective date will be for service rendered on and after November 1,  
20 2008, which will simplify EKPC's billing to its member systems.

21 **Q. Are there any other specific commitments of the parties to the Settlement**  
22 **Agreement?**

23 A. EKPC will agree to certify to the Commission, and will request its member  
24 distribution system Owen Electric Cooperative to also certify, that no proposals



1 will be made in this case, or in PSC Case No. 2007-00378, to change the  
2 methodology for allocating of the surcharge to customers.

3 **Q. Does this conclude your testimony?**

4 A. Yes, it does.

5

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**STATEMENT OF OPERATIONS**  
**(AS REPORTED TO THE PSC)**

	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	ended 6/30/08
<b>Electric Energy Revenues</b>													
Power Sales—Member Cooperatives	57,806,169	67,360,468	62,723,609	51,327,037	55,184,534	62,372,044	82,124,839	72,272,889	64,847,294	54,574,551	50,892,743	59,560,163	740,846,340
Power Sales—Off-System	355,827	1,021,364	764,843	1,472,832	606,703	580,912	587,865	1,385,050	275,937	113,358	107,143	783,528	8,055,362
<b>Total Electric Energy Revenue</b>	<b>57,961,996</b>	<b>68,381,832</b>	<b>63,488,452</b>	<b>52,799,869</b>	<b>55,791,237</b>	<b>62,952,956</b>	<b>82,712,704</b>	<b>73,657,939</b>	<b>65,123,231</b>	<b>54,687,909</b>	<b>50,999,886</b>	<b>60,343,691</b>	<b>748,901,702</b>
Other Operating Revenue—Income	1,153,002	1,113,584	1,265,489	1,197,537	994,400	1,277,807	1,591,481	1,458,796	1,412,388	1,302,476	1,328,458	1,153,039	15,248,456
<b>Total Operating Revenue &amp; Patronage Capital</b>	<b>59,114,998</b>	<b>69,495,416</b>	<b>64,753,941</b>	<b>53,997,406</b>	<b>56,785,637</b>	<b>64,230,763</b>	<b>84,304,185</b>	<b>75,116,735</b>	<b>66,535,619</b>	<b>55,990,385</b>	<b>52,328,344</b>	<b>61,496,730</b>	<b>764,150,158</b>
<b>Operation Expenses</b>													
Production Costs Excluding Fuel	6,600,429	6,684,491	6,141,225	5,523,167	6,096,988	(1,080,296)	4,302,983	4,560,287	4,353,783	5,502,131	3,029,000	5,467,035	57,181,224
Fuel	24,454,112	32,625,390	23,604,127	21,094,824	21,422,029	25,568,836	28,109,779	25,519,295	21,425,750	17,730,799	17,666,369	27,430,102	286,651,412
Other Power Supply	6,829,765	14,040,361	5,692,289	7,023,385	9,013,999	17,614,742	22,667,505	15,949,719	23,369,523	14,251,143	12,216,635	19,116,700	167,785,765
Transmission	1,940,948	2,377,694	1,676,064	2,066,718	1,348,972	1,371,452	2,941,345	2,866,531	2,079,030	2,306,809	2,452,064	2,696,433	26,124,060
Distribution	67,292	70,551	58,097	63,577	50,870	46,934	51,198	33,464	39,029	52,295	81,300	75,941	690,548
Customer Service & Information	151,218	307,154	155,682	248,903	278,591	758,487	260,104	88,558	198,876	126,612	131,435	104,207	2,809,828
Sales	5,777	5,383	4,994	8,692	5,621	10,015	(2,233)	1,543	2,053	1,684	2,148	1,650	47,328
Administration & General	3,190,707	2,094,248	1,758,597	1,917,384	2,168,263	2,433,815	2,490,872	1,789,063	1,959,893	1,911,678	1,897,296	1,038,722	24,650,538
<b>Total Operation Expenses</b>	<b>43,240,248</b>	<b>58,205,271</b>	<b>39,091,076</b>	<b>37,946,652</b>	<b>40,385,332</b>	<b>46,723,985</b>	<b>60,821,552</b>	<b>50,808,461</b>	<b>53,427,938</b>	<b>41,883,151</b>	<b>37,476,247</b>	<b>55,930,791</b>	<b>565,940,703</b>
<b>Maintenance Expenses</b>													
Production	2,586,533	2,897,666	2,389,984	4,794,726	6,633,390	10,353,162	1,638,752	2,513,720	3,486,154	6,864,728	8,571,826	7,700,939	60,431,580
Transmission	279,260	878,010	288,578	484,363	274,085	543,228	240,072	254,162	258,669	361,362	381,960	362,270	4,606,019
Distribution	182,563	130,804	128,773	61,230	183,758	139,233	131,887	93,968	93,694	104,482	76,331	117,798	1,444,520
General Plant	47,236	104,872	76,023	62,882	48,893	37,951	59,130	86,284	48,244	52,148	63,585	55,308	742,556
<b>Total Maintenance Expenses</b>	<b>3,095,592</b>	<b>4,011,351</b>	<b>2,883,358</b>	<b>5,403,201</b>	<b>7,140,126</b>	<b>11,073,573</b>	<b>2,069,841</b>	<b>2,948,134</b>	<b>3,886,761</b>	<b>7,382,720</b>	<b>9,093,703</b>	<b>8,236,315</b>	<b>67,224,675</b>
<b>Operating Expenses</b>													
Depreciation/Amortization	3,376,430	3,358,054	3,409,487	3,416,540	3,431,562	3,324,148	3,434,965	3,442,237	3,460,188	3,544,371	3,391,904	3,499,217	41,089,105
Taxes	-	140	-	-	53	-	-	(8,452)	9,252	-	-	-	993
Interest on Long-Term Debt	8,729,658	8,780,908	8,736,876	9,123,407	8,839,071	9,161,512	9,074,194	8,504,201	9,002,520	8,530,089	8,898,220	8,847,599	106,228,254
Other Interest Expense	8,275	12,131	9,266	9,996	4,706	3,332	2,705	-	1,420	1,823	2,358	1,353	57,366
Other Deductions	126,795	87,941	2,443,350	206,998	165,986	(6,048,934)	114,888	90,571	150,264	153,478	(199,368)	78,169	(2,629,863)
<b>Total Operating Expenses</b>	<b>12,241,158</b>	<b>12,239,174</b>	<b>14,598,979</b>	<b>12,756,940</b>	<b>12,441,378</b>	<b>6,440,057</b>	<b>12,626,752</b>	<b>12,028,558</b>	<b>12,623,644</b>	<b>12,229,761</b>	<b>12,093,115</b>	<b>12,426,338</b>	<b>144,745,855</b>
<b>Total Cost of Electric Service</b>	<b>58,576,998</b>	<b>74,455,797</b>	<b>56,573,413</b>	<b>56,106,793</b>	<b>59,966,836</b>	<b>64,237,615</b>	<b>75,518,145</b>	<b>65,785,152</b>	<b>69,938,343</b>	<b>61,495,632</b>	<b>58,663,064</b>	<b>76,593,444</b>	<b>777,911,233</b>
<b>Operating Margins (Deficit)</b>	<b>538,000</b>	<b>(4,960,381)</b>	<b>8,180,528</b>	<b>(2,109,387)</b>	<b>(3,181,199)</b>	<b>(6,852)</b>	<b>8,786,040</b>	<b>9,331,582</b>	<b>(3,402,724)</b>	<b>(5,505,247)</b>	<b>(6,334,720)</b>	<b>(15,096,714)</b>	<b>(13,761,074)</b>
<b>Non-Operating Items</b>													
Interest Income	656,036	536,154	567,539	449,015	404,865	435,420	339,371	422,392	506,932	419,255	449,387	555,526	5,741,892
Allowance for Funds Used During Construction	1,815,574	1,998,734	2,134,736	2,174,388	2,353,547	2,349,195	2,609,058	2,536,399	2,438,416	2,581,689	2,576,670	2,748,292	28,316,698
Other Non-Operating Income	5,289	(57,413)	4,829	(2,196)	(3,141)	6,260	11,604	(288)	(2,792)	5,954	(1,772)	35,576	1,910
Other Capital Credits/Patronage	-	-	92,317	65	436	91	231	-	37,177	1,596	-	797	132,711
<b>Total Non-Operating Items</b>	<b>2,476,899</b>	<b>2,477,475</b>	<b>2,799,421</b>	<b>2,621,272</b>	<b>2,755,708</b>	<b>2,790,965</b>	<b>2,960,264</b>	<b>2,958,503</b>	<b>2,979,733</b>	<b>3,008,496</b>	<b>3,024,285</b>	<b>3,340,191</b>	<b>34,193,211</b>
<b>Net Patronage Capital &amp; Margins (Deficit)</b>	<b>3,014,898</b>	<b>(2,482,906)</b>	<b>10,979,949</b>	<b>511,885</b>	<b>(425,492)</b>	<b>2,784,114</b>	<b>11,746,304</b>	<b>12,290,085</b>	<b>(422,992)</b>	<b>(2,496,752)</b>	<b>(3,310,436)</b>	<b>(11,756,522)</b>	<b>20,432,137</b>
<b>TIER and DSC for the 12 months ending:</b>	<b>July 2007</b>	<b>Aug 2007</b>	<b>Sept 2007</b>	<b>Oct 2007</b>	<b>Nov 2007</b>	<b>Dec 2007</b>	<b>Jan 2008</b>	<b>Feb 2008</b>	<b>Mar 2008</b>	<b>Apr 2008</b>	<b>May 2008</b>	<b>June 2008</b>	
TIER	1.46	1.42	1.54	1.52	1.55	1.41	1.45	1.56	1.40	1.44	1.31	1.19	
DSC	1.13	1.10	1.17	1.14	1.15	1.15	1.18	1.25	1.15	1.17	1.08	1.00	

**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**STATEMENT OF OPERATIONS**  
**(EXCLUDING DECEMBER 2007 EPA ENTRY IMPACT)**

	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	ended 6/30/08
<b>Electric Energy Revenues</b>													
Power Sales—Member Cooperatives	57,606,169	67,360,468	62,723,609	51,327,037	55,184,534	62,372,044	82,124,839	72,272,889	64,847,294	54,574,551	50,892,743	59,560,163	740,846,340
Power Sales—Off-System	355,827	1,021,364	764,843	1,472,832	606,703	580,912	587,865	1,385,050	275,937	113,358	107,143	783,528	8,055,362
<b>Total Electric Energy Revenue</b>	<b>57,961,996</b>	<b>68,381,832</b>	<b>63,488,452</b>	<b>52,799,869</b>	<b>55,791,237</b>	<b>62,952,956</b>	<b>82,712,704</b>	<b>73,657,939</b>	<b>65,123,231</b>	<b>54,687,909</b>	<b>50,999,886</b>	<b>60,343,691</b>	<b>748,901,702</b>
Other Operating Revenue—Income	1,153,002	1,113,584	1,265,489	1,197,537	994,400	1,277,807	1,591,481	1,458,796	1,412,388	1,302,476	1,328,458	1,153,039	15,248,456
<b>Total Operating Revenue &amp; Patronage Capital</b>	<b>59,114,998</b>	<b>69,495,416</b>	<b>64,753,941</b>	<b>53,997,406</b>	<b>56,785,637</b>	<b>64,230,763</b>	<b>84,304,185</b>	<b>75,116,735</b>	<b>66,535,619</b>	<b>55,990,385</b>	<b>52,328,344</b>	<b>61,496,730</b>	<b>764,150,158</b>
<b>Operation Expenses</b>													
Production Costs Excluding Fuel	6,600,429	6,684,491	6,141,225	5,523,167	6,096,988	5,334,484	4,302,983	4,560,287	4,353,783	5,502,131	3,029,000	5,467,035	63,596,004
Fuel	24,454,112	32,625,390	23,604,127	21,094,824	21,422,029	25,568,836	28,109,779	25,519,295	21,425,750	17,730,799	17,666,369	27,430,102	286,651,412
Other Power Supply	6,829,785	14,040,361	5,692,289	7,023,385	9,013,999	17,614,742	22,667,505	15,949,719	23,369,523	14,251,143	12,216,635	19,116,700	167,785,765
Transmission	1,940,948	2,377,694	1,676,064	2,066,718	1,348,972	1,371,452	2,941,345	2,866,531	2,079,030	2,306,809	2,452,064	2,696,433	26,124,060
Distribution	67,292	70,551	58,097	63,577	50,870	46,934	51,198	33,464	39,029	52,295	81,300	75,941	690,548
Customer Service & Information	151,218	307,154	155,682	248,903	278,591	758,487	260,104	88,558	198,876	126,612	131,435	104,207	2,809,828
Sales	5,777	5,383	4,994	8,692	5,621	10,015	(2,233)	1,543	2,053	1,684	2,148	1,650	47,328
Administration & General	3,190,707	2,094,248	1,758,597	1,917,384	2,168,263	2,433,815	2,490,872	1,789,063	1,959,893	1,911,678	1,897,296	1,038,722	24,650,538
<b>Total Operation Expenses</b>	<b>43,240,248</b>	<b>58,205,271</b>	<b>39,091,076</b>	<b>37,946,652</b>	<b>40,385,332</b>	<b>53,138,765</b>	<b>60,821,552</b>	<b>50,808,461</b>	<b>53,427,938</b>	<b>41,883,151</b>	<b>37,476,247</b>	<b>55,930,791</b>	<b>572,355,483</b>
<b>Maintenance Expenses</b>													
Production	2,586,533	2,897,666	2,389,984	4,794,726	6,633,390	10,353,162	1,638,752	2,513,720	3,486,154	6,864,728	8,571,826	7,700,939	60,431,580
Transmission	279,260	878,010	288,578	484,363	274,085	543,228	240,072	254,162	258,669	361,362	381,960	362,270	4,606,019
Distribution	182,563	130,804	128,773	61,230	183,758	139,233	131,887	93,968	93,694	104,482	76,331	117,798	1,444,520
General Plant	47,236	104,872	76,023	62,882	48,893	37,951	59,130	86,284	48,244	52,148	63,585	55,308	742,556
<b>Total Maintenance Expenses</b>	<b>3,095,592</b>	<b>4,011,351</b>	<b>2,883,358</b>	<b>5,403,201</b>	<b>7,140,126</b>	<b>11,073,573</b>	<b>2,069,841</b>	<b>2,948,134</b>	<b>3,886,761</b>	<b>7,382,720</b>	<b>9,093,703</b>	<b>8,236,315</b>	<b>67,224,675</b>
<b>Operating Expenses</b>													
Depreciation/Amortization	3,376,430	3,358,054	3,409,487	3,416,540	3,431,562	3,324,148	3,434,965	3,442,237	3,460,188	3,544,371	3,391,904	3,499,217	41,089,105
Taxes	-	140	-	-	53	-	-	(8,452)	9,252	-	-	-	993
Interest on Long-Term Debt	8,729,658	8,780,908	8,736,876	9,123,407	8,839,071	9,161,512	9,074,194	8,504,201	9,002,520	8,530,089	8,898,220	8,847,599	106,228,254
Other Interest Expense	8,275	12,131	9,266	9,996	4,706	3,332	2,705	-	1,420	1,823	2,358	1,353	57,366
Other Deductions	126,795	87,941	2,443,350	206,998	165,986	3,393,801	114,888	90,571	150,264	153,478	(199,368)	78,169	6,812,872
<b>Total Operating Expenses</b>	<b>12,241,158</b>	<b>12,239,174</b>	<b>14,598,979</b>	<b>12,756,940</b>	<b>12,441,378</b>	<b>15,882,792</b>	<b>12,626,752</b>	<b>12,028,558</b>	<b>12,623,644</b>	<b>12,229,761</b>	<b>12,093,115</b>	<b>12,426,338</b>	<b>154,188,590</b>
<b>Total Cost of Electric Service</b>	<b>58,576,998</b>	<b>74,455,797</b>	<b>56,573,413</b>	<b>56,106,793</b>	<b>59,966,836</b>	<b>80,095,130</b>	<b>75,518,145</b>	<b>65,785,152</b>	<b>69,938,343</b>	<b>61,495,632</b>	<b>58,663,064</b>	<b>76,593,444</b>	<b>793,768,748</b>
<b>Operating Margins (Deficit)</b>	<b>538,000</b>	<b>(4,960,381)</b>	<b>8,180,528</b>	<b>(2,109,387)</b>	<b>(3,181,199)</b>	<b>(15,864,367)</b>	<b>8,786,040</b>	<b>9,331,582</b>	<b>(3,402,724)</b>	<b>(5,505,247)</b>	<b>(6,334,720)</b>	<b>(15,096,714)</b>	<b>(29,618,589)</b>
<b>Non-Operating Items</b>													
Interest Income	656,036	536,154	567,539	449,015	404,865	435,420	339,371	422,392	506,932	419,255	449,387	555,526	5,741,892
Allowance for Funds Used													
During Construction	1,815,574	1,998,734	2,134,736	2,174,388	2,353,547	2,349,195	2,609,058	2,536,399	2,438,416	2,581,689	2,576,670	2,748,292	28,316,698
Other Non-Operating Income	5,289	(57,413)	4,829	(2,196)	(3,141)	6,260	11,604	(288)	(2,792)	5,954	(1,772)	35,576	1,910
Other Capital Credits/Patronage	-	-	92,317	65	436	91	231	-	37,177	1,596	-	797	132,711
<b>Total Non-Operating Items</b>	<b>2,476,899</b>	<b>2,477,475</b>	<b>2,799,421</b>	<b>2,621,272</b>	<b>2,755,708</b>	<b>2,790,965</b>	<b>2,960,264</b>	<b>2,958,503</b>	<b>2,979,733</b>	<b>3,008,496</b>	<b>3,024,285</b>	<b>3,340,191</b>	<b>34,193,211</b>
<b>Net Patronage Capital &amp; Margins (Deficit)</b>	<b>3,014,898</b>	<b>(2,482,906)</b>	<b>10,979,949</b>	<b>511,885</b>	<b>(425,492)</b>	<b>(13,073,401)</b>	<b>11,746,304</b>	<b>12,290,085</b>	<b>(422,992)</b>	<b>(2,496,752)</b>	<b>(3,310,436)</b>	<b>(11,756,522)</b>	<b>4,574,622</b>
<b>TIER and DSC for the 12 months ending:</b>	<b>July 2007</b>	<b>Aug 2007</b>	<b>Sept 2007</b>	<b>Oct 2007</b>	<b>Nov 2007</b>	<b>Dec 2007</b>	<b>Jan 2008</b>	<b>Feb 2008</b>	<b>Mar 2008</b>	<b>Apr 2008</b>	<b>May 2008</b>	<b>June 2008</b>	
<b>TIER</b>	1.46	1.42	1.54	1.52	1.55	1.25	1.30	1.41	1.25	1.29	1.16	1.04	
<b>DSC</b>	1.13	1.10	1.17	1.14	1.15	1.05	1.08	1.15	1.05	1.07	0.99	0.91	

## 2008 EKPC Net Margin Projections

	<u>2008</u> Based On 2008 Budget	<u>2008</u> 6 Months Actual + 6 Months Budget	<u>2008</u> 6 Months Actual + 6 Months Budget <u>Min. DSC Needed</u>
Interest Expense	132,743,156	122,906,971	122,906,971
Net Margin	32,912,862	18,868,040	21,444,467
TIER	1.248	1.154	1.174

### DSC

Depreciation	45,622,890	44,155,277	44,445,726
Interest on L-T Debt	132,743,156	122,906,971	122,906,971
Net Margin	32,912,862	18,868,040	21,444,467
Interest + Principal	194,750,156	184,913,971	184,913,971
DSC	1.085	1.005	1.021

↑  
Need minimum  
DSC Ratio of 1.021  
for 2008,  
in order to stay in  
compliance with  
Credit Facility  
covenants.

East Kentucky Power Cooperative, Inc.  
 Projected TIER & DSC Calculations for 2008

2008 Net Margin is based on 6 months actual results + 6 months budget

Exhibit DGE- Supplemental 4

For 2003

TIER

(a) Net Margins	29,397,778		
(b) Interest on Long Term Debt	44,457,851		
<b>TIER = (a) + (b) / (b) =</b>	73,855,628	/	44,457,851 = <b>1.661</b>

DSC

(a) Depreciation	31,166,309
(b) Interest on L-T Debt	44,457,851
(c) Margins	29,397,778
(d) Interest + Principal	77,934,106
<b>DSC = (a) + (b) + (c) / (d) =</b>	<b>1.348</b>

For 2004

TIER

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

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
<b>DSC = (a) + (b) + (c) / (d) =</b>	<b>0.717</b>

For 2005: Mortgage Agreement

TIER

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

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
<b>DSC = (a) + (b) + (c) / (d) =</b>	<b>0.662</b>

For 2005: Credit Agreement

TIER

(a) Net Margins	2,978,319		
(b) Interest on Long Term Debt	69,570,845		
<b>TIER = (a) + (b) / (b) =</b>	72,549,164	/	69,570,845 = <b>1.043</b>

DSC

(a) Depreciation	52,037,571
(b) Interest on L-T Debt	69,570,843
(c) Margins	2,978,319
(d) Interest + Principal	114,243,781
<b>DSC = (a) + (b) + (c) / (d) =</b>	<b>1.091</b>

For 2006: Mortgage Agreement and Credit Agreement

TIER

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

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
<b>DSC = (a) + (b) + (c) / (d) =</b>	<b>0.879</b>

Mortgage Agreement	
Credit Agreement	
	<b>0.813</b>
	<b>1.087</b>

Average of  
Best 2 of 3

For 2007: Mortgage Agreement

TIER

(a) Net Margins	41,920,486		
(b) Interest on Long Term Debt	102,943,597		
<b>TIER = (a) + (b) / (b) =</b>	144,864,083	/	102,943,597 = <b>1.407</b>

DSC

(a) Depreciation	40,562,780
(b) Interest on L-T Debt	102,943,597
(c) Margins	41,920,486
(d) Interest + Principal	160,863,802
<b>DSC = (a) + (b) + (c) / (d) =</b>	<b>1.133</b>

NOV penalties of	\$	23,111,906
Allowances surrendered of	\$	10,016,420

**1.270**

For 2007: Credit Agreement

TIER

(a) Net Margins	8,792,160		
(b) Interest on Long Term Debt	102,943,597		
<b>TIER = (a) + (b) / (b) =</b>	111,735,757	/	102,943,597 = <b>1.085</b>

DSC

(a) Depreciation	40,562,780
(b) Interest on L-T Debt	102,943,597
(c) Margins	8,792,160
(d) Interest + Principal	160,863,802
<b>DSC = (a) + (b) + (c) / (d) =</b>	<b>0.947</b>

NOV penalties of	\$	23,111,906
Allowances surrendered of	\$	10,016,420

**1.109**

**1.035**

For 2008: Mortgage Agreement and Credit Agreement

TIER

(a) Net Margins	18,868,040		
(b) Interest on Long Term Debt	122,906,971		
<b>TIER = (a) + (b) / (b) =</b>	141,775,011	/	122,906,971 = <b>1.154</b>

DSC

(a) Depreciation	44,155,277
(b) Interest on L-T Debt	122,906,971
(c) Margins	18,868,040
(d) Interest + Principal	184,913,971
<b>DSC = (a) + (b) + (c) / (d) =</b>	<b>1.005</b>

Mortgage Agreement	
Credit Agreement	
	<b>1.280</b>
	<b>1.143</b>

Mortgage Agreement	
Credit Agreement	
	<b>1.079</b>
	<b>0.992</b>

FAIL

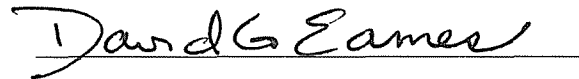
**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**THE APPLICATION OF EAST KENTUCKY            )**  
**POWER COOPERATIVE, INC., FOR APPROVAL    )**  
**OF AN AMENDMENT TO ITS                        )** **Case No. 2008-00115**  
**ENVIRONMENTAL COMPLIANCE PLAN AND        )**  
**ENVIRONMENTAL SURCHARGE                    )**

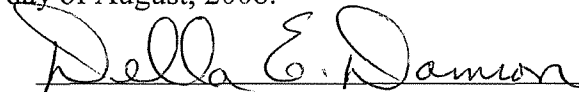
**STATE OF KENTUCKY    )**  
**)**  
**COUNTY OF CLARK     )**

David G. Eames, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.



David G. Eames

Subscribed and sworn before me on this 6<sup>th</sup> day of August, 2008.



Notary Public

My Commission expires: 5/15/2011