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PUBLIC SERVICE COMMISSION

September 2, 2003

VIA HAND DELIVERY
Thomas M. Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: ***An Investigation of East Kentucky Power Cooperative, Inc.'s Need For The Gilbert Unit And The Kentucky Pioneer Energy, LLC Purchase Power Agreement***
Case No. 2003-00030

Dear Mr. Dorman:

Enclosed please find and accept for filing the original and ten (10) copies of Kentucky Pioneer Energy, LLC's Response to Commission Staff's First Data Request Dated August 21, 2003 in the above-referenced case. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Yours very truly,

Kendrick R. Riggs

KRR/ec
Enclosures
cc: Parties of Record
Richard Raff, Staff Counsel (via facsimile (502) 564-7279)
Dwight N. Lockwood, P.E., QEP
Mike Musulin, II
Harry H. Graves

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

In The Matter Of:

AN INVESTIGATION OF EAST KENTUCKY	**)**	
POWER COOPERATIVE, INC.'S NEED FOR	**)**	
THE GILBERT UNIT AND THE KENTUCKY	**)**	**CASE NO:**
PIONEER ENERGY, LLC PURCHASE	**)**	**2003-00030**
POWER AGREEMENT	**)**	

KENTUCKY PIONEER ENERGY, LLC'S RESPONSE TO
COMMISSION STAFF'S FIRST DATA REQUEST
DATED AUGUST 21, 2003

FILED: SEPTEMBER 2, 2003

KENTUCKY PIONEER ENERGY, LLC

CASE NO. 2003-00030

Kentucky Pioneer Energy, LLC's Response to Commission Staff's First Data Request Dated August 21, 2003

Question No. 1

Responding Witness: Dwight Lockwood

Q-1. Refer to the response of Dwight Lockwood dated June 30, 2003, and attached as Exhibit 1 to the prepared testimony of David D. Drake on behalf of East Kentucky Power Cooperative, Inc. ("East Kentucky"). At page 3 of Mr. Lockwood's response, in the first paragraph under the section titled "Availability," he states that the comments set forth in the report of East Kentucky's consultant will be reflected by Kentucky Pioneer "in the plant design and operational planning as the project moves forward." Has Kentucky Pioneer completed the plant design and operational planning for this project? If yes, provide copies of the relevant documents. If no, state the estimated date when such documents will be completed.

A-1. No, Kentucky Pioneer has not completed plant design and operational planning for this project. In the time since the PSC approved the PPA between EKPC and Kentucky Pioneer, Kentucky Pioneer has worked diligently to meet all regulatory requirements relevant to the project. Kentucky Pioneer's persistent efforts notwithstanding, several regulatory processes remain, including Siting Board Certification and the Planning and Zoning process. Once Kentucky Pioneer meets all relevant regulatory requirements it will begin to secure financing, a process that Mr. Harry Graves stated at the Informal Conference is likely to require at least six months. After Kentucky Pioneer secures financing it can undertake detailed plant design and operational planning; however, the full plant design and operational planning process may not be complete until well into year two of the three-year construction period. Kentucky Pioneer currently estimates an in-service date of late 2007 or early 2008, so plant design and operational planning should be complete sometime in late 2006 or early 2007, barring unforeseen difficulties.

KENTUCKY PIONEER ENERGY, LLC

CASE NO. 2003-00030

Kentucky Pioneer Energy, LLC's Response to
Commission Staff's First Data Request
Dated August 21, 2003

Question No. 2

Responding Witness: Dwight Lockwood

Q-2. Refer to East Kentucky's July 28, 2003 response to the Commission's first information request dated July 17, 2003, Item No. 4. Does Kentucky Pioneer agree with East Kentucky's position that "an extensive engineering and economic analysis of the project must be prepared by an independent engineering consulting firm prior to any financial closure of the project?" If no, explain in detail.

A-2. Yes, Kentucky Pioneer agrees that the completion of such an independent engineering and economic analysis prior to financial closure of the project is appropriate. An independent engineer's review of the project – on behalf of the financing entity – is a typical requirement in any project involving substantial external financing. The review is usually performed contemporaneously with the completion of project development tasks. The independent engineer's duty is to attest to the commercial viability of the project (i.e., ability to fulfill financing repayment obligations) and consider the ability of the project's technical design and operational plans to meet those obligations.

KENTUCKY PIONEER ENERGY, LLC

CASE NO. 2003-00030

Kentucky Pioneer Energy, LLC's Response to
Commission Staff's First Data Request
Dated August 21, 2003

Question No. 3

Responding Witness: Dwight Lockwood

Q-3. Refer to the prepared testimony of David H. Brown-Kinloch on behalf of the Office of the Attorney General. Does Kentucky Pioneer agree with Mr. Brown-Kinloch's conclusion at page 9, lines 1-2, that, "the justification for the Commission's original approval of the KPE contract is no longer valid?" If no, explain in detail.

A-3. No. Kentucky Pioneer disputes Mr. Brown-Kinloch's assertion.

The original justification for the Kentucky Pioneer project was EKPC's need for additional baseload capacity. Testimony of David H. Brown-Kinloch, p.8, ln.17. EKPC stated in its response to question 5(b) of the PSC's July 17, 2003 data request that figuring Kentucky Pioneer into EKPC's resource mix produces a surplus capacity over load requirements only in 2008 and summer of 2009, meaning that Kentucky Pioneer would contribute needed capacity to meet load requirements no later than 2009. The foregoing date estimates assume no long-term sales, see id.; thus, the date when EKPC would have no surplus capacity over load requirements could be earlier than 2009. Given the indication by EKPC that the Kentucky Pioneer project could begin operations in 2008, Kentucky Pioneer's project will be a timely addition to EKPC's future baseload capacity requirements. Therefore, the original justification for PSC approval of the Kentucky Pioneer project – EKPC's baseload capacity needs – remains a justification for continued PSC support of the Kentucky Pioneer project.

In addition, the Kentucky Pioneer project is likely to remain the low-cost alternative to natural gas-fired turbines. There is a growing consensus of long-term projections showing that the cost of natural gas will rise in the future, making gasification of coal and refuse-derived fuel an even more attractive fuel source and a greater benefit to ratepayers.

KENTUCKY PIONEER ENERGY, LLC

CASE NO. 2003-00030

Kentucky Pioneer Energy, LLC's Response to
Commission Staff's First Data Request
Dated August 21, 2003

Question No. 4

Responding Witness: Dwight Lockwood

Q-4. Refer to the testimony of Mr. Brown-Kinloch at page 9, lines 8-11. Does Kentucky Pioneer agree with the conclusions stated therein that the Kentucky Pioneer/East Kentucky Power Purchase Agreement "has become unusable as a power purchase contract and thus invalid because of KPE failure to meet deadlines in the contract?" If no, explain in detail.

A-4. No. Kentucky Pioneer disputes Mr. Brown-Kinloch's assertion.

Kentucky Pioneer and EKPC remain committed to the success of the Kentucky Pioneer project. Neither Kentucky Pioneer nor EKPC contend that the PPA is invalid for any reason, and neither party has exercised its right to terminate the contract. The PPA, therefore, remains valid and in effect.

Although EKPC's board of directors has yet to rescind its August 13, 2002 authorization to send Kentucky Pioneer notice of termination, EKPC withdrew its notice of termination in a letter from EKPC CEO Roy Palk of September 13, 2002, which decision not to terminate Mr. Palk reiterated in a letter of January 31, 2003. EKPC's board, which Mr. Palk regularly updates on Kentucky Pioneer's regulatory progress, has taken no further action toward terminating the PPA.

Both parties to the PPA remain committed to the Kentucky Pioneer project and encouraged by Kentucky Pioneer's regulatory progress in recent months, most notably securing a $78 million grant from DOE on January 29, 2003. DOE, expressly tasked with targeting grant money to commercially ready technologies, designated $61 million of the grant for Kentucky Pioneer's proposed gasification facility, which will be the first of its kind in America. The grant represents an important federal investment in Kentucky and coal/RDF gasification technology, helps create a new and environmentally friendly market for Kentucky coal, and puts Kentucky on cutting edge of power generation technology. It is a significant achievement for the Commonwealth and for Kentucky Pioneer.

Kentucky Pioneer disputes any assertion that it has "fail[ed] to meet deadlines." Kentucky Pioneer contends that the terms of the PPA take account of the various events

KENTUCKY PIONEER ENERGY, LLC

CASE NO. 2003-00030

Kentucky Pioneer Energy, LLC's Response to
Commission Staff's First Data Request
Dated August 21, 2003

that have caused the regulatory approval process to be lengthier than either party anticipated, and that the PPA operates in such a way that Kentucky Pioneer has not missed any milestone dates.

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