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FEB 02 2005

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)
OF AN ENVIRONMENTAL COMPLIANCE PLAN) CASE NO. 2004-
AND AUTHORITY TO IMPLEMENT AN) 00321
ENVIRONMENTAL SURCHARGE)

In the Matter of:

THE APPLICATION OF BIG SANDY RECC,)
BLUE GRASS EC, CLARK EC, CUMBERLAND)
VALLEY ELECTRIC, FARMERS RECC,)
FLEMING-MASON ENERGY, GRAYSON RECC,)
INTER-COUNTY EC, JACKSON EC, LICKING)
VALLEY RECC, NOLIN RECC, OWEN EC, SALT) CASE NO. 2004-
RIVER ELECTRIC, SHELBY EC, SOUTH) 00372
KENTUCKY RECC, AND TAYLOR COUNTY RECC)
FOR AUTHORITY TO PASS THROUGH THE)
ENVIRONMENTAL SURCHARGE OF EAST)
KENTUCKY POWER COOPERATIVE, INC.)

JOINT MOTION TO APPROVE SETTLEMENT AGREEMENT

The Parties of Record in PSC Case No. 2004-00321 and PSC Case No. 2004-00372, East Kentucky Power Cooperative, Inc., (hereinafter referred to as "EKPC"); Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric, Shelby Energy Cooperative, South Kentucky RECC and Taylor County RECC (hereinafter collectively

referred to as the "EKPC Member Systems"); the Kentucky Office of the Attorney General (hereinafter referred to as the "Attorney General"); and Gallatin Steel Company (hereinafter referred to as "Gallatin Steel"), hereby jointly move the Kentucky Public Service Commission to adopt and accept the Settlement Agreement dated February 2, 2005, negotiated by said Parties (the "Settlement Agreement") and to approve EKPC's Application for approval of an Environmental Compliance Plan and the implementation and retail pass-through of an Environmental Surcharge as amended by said Settlement Agreement. As grounds for this Joint Motion, the Parties state as follows:

1. The Parties conducted a settlement conference at the Commission offices on January 20, 2005, with the assistance and participation of the Commission staff, and reached unanimous agreement on certain amendments to EKPC's Application in PSC Case No. 2004-00321. Those amendments are incorporated into the Settlement Agreement, which is attached to and made a part of this Joint Motion.

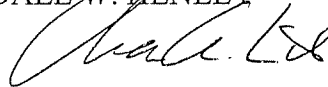
2. The Parties are willing to settle PSC Case No. 2004-00321 and the associated PSC Case No. 2004-372, regarding the pass through to retail rates by EKPC Member Systems of the EKPC Environmental Surcharge, upon the adoption and acceptance of the Settlement Agreement by the Commission. The Parties assert that the Settlement Agreement represents a fair and reasonable resolution of all contested issues in the cases.

WHEREFORE, the Parties hereby jointly move the Commission to adopt and accept the Settlement Agreement, to approve EKPC's Environmental Compliance Plan as amended by said Agreement, and to authorize EKPC to implement, and the EKPC Member Systems to pass through to retail rates, the proposed EKPC Environmental

Surcharge, as amended by the Settlement Agreement, effective for service rendered on and after April 1, 2005.

Respectfully submitted,

DALE W. HENLEY



CHARLES A. LILE

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WINCHESTER, KY 40392-0707

(859) 744-4812

ATTORNEYS FOR EAST KENTUCKY
POWER COOPERATIVE, INC. and
EKPC MEMBER SYSTEMS



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ATTORNEY FOR

GALLATIN STEEL COMPANY

CERTIFICATE OF SERVICE

This is to certify that an original and 10 copies of the foregoing Joint Motion to Approve Settlement Agreement in the above-styled cases were delivered to Elizabeth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, KY 40601; and copies were mailed to Parties of Record in these cases on this 2nd day of February, 2005.



CHARLES A. LILE

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FEB 02 2005

PUBLIC SERVICE
COMMISSION

SETTLEMENT AGREEMENT

This Settlement Agreement, is entered this 2nd day of February, 2005, by and among East Kentucky Power Cooperative, Inc., (hereinafter referred to as "EKPC"); Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric, Shelby Energy Cooperative, South Kentucky RECC and Taylor County RECC (hereinafter collectively referred to as the "EKPC Member Systems"); the Kentucky Office of the Attorney General (hereinafter referred to as the "Attorney General"); and Gallatin Steel Company (hereinafter referred to as "Gallatin Steel").

WITNESSETH:

WHEREAS, EKPC filed an Application with the Kentucky Public Service Commission (the "Commission") on September 17, 2004 for approval of an Environmental Compliance Plan and authority to implement an Environmental Surcharge pursuant to KRS §278.183 in PSC Case No. 2004-00321; and the EKPC Member Systems filed an Application with the Commission on the same date in PSC Case No. 2004-00372, seeking authority to pass through to their retail electric rates any Environmental Surcharge granted to EKPC;

WHEREAS, The Attorney General was made a party to PSC Case No. 2004-00321 and 2004-00372 by orders of the Commission dated September 22, 2004 and

October 12, 2004, respectively, and Gallatin Steel was made a party to PSC Case No. 2004-00321 and 2004-00372 by orders of the Commission dated October 7, 2004;

WHEREAS, The Parties to the above-referenced cases participated in a settlement conference on January 20, 2005 at the offices of the Commission, with the assistance and participation of Commission staff, and discussed and resolved all contested issues in said cases; and

WHEREAS, The Parties desire to settle all issues in the above-referenced cases 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:

Amendment of EKPC's Application in PSC Case No. 2004-00321

1. The Parties agree to use the Base-Current methodology for calculation of the monthly surcharge factor for EKPC. The Base (BESF) for EKPC will be 0.51%. The Parties agree that the issue of the distribution cooperative's use of the base/current approach is not being decided in these cases, and that issue may be raised in the first two-year environmental surcharge review. Until that time, the distribution cooperatives will utilize their proposed tariffs, which reflect the base/current approach, with the Base (BESF) set at 0%. The BESF for EKPC is based on the computation outlined in Attachment 1 herein. It reflects the recognition of the cost of those environmental-related assets already included in EKPC's base rates that are being replaced by new projects under EKPC's Environmental Compliance Plan.
2. The Parties agree that EKPC's Environmental Compliance Plan shall consist of the following projects:
 - Project 1: Gilbert 1 Boiler (pollution-control related only), SNCR, Baghouse and Flash Drier Absorber
 - Project 2: Spurlock 1 Precipitator
 - Project 3: Spurlock 1 SCR
 - Project 4: Spurlock 2 SCR

3. The Parties agree that only the environmental activities and costs directly related to these four projects are eligible for cost recovery.
4. The Parties agree that the reasonable return on construction expenditures shall be based on a weighted average debt cost of those debt issuances directly related to the four projects in EKPC's compliance plan, multiplied by a 1.15 TIER factor. Further, the initial rate of return shall be based on the weighted average cost of such debt as of December 31, 2004 of 4.918%, multiplied by a 1.15 TIER factor, or 5.66%. Attachment 2 provides the basis of this rate of return. The Parties agree that the 5.66% return will remain in use until altered by Commission Order. EKPC will update the return as of the end of each six-month review period and request Commission approval of the updated average cost of debt. The 1.15 TIER factor will be applied to the updated average cost of debt. Upon Commission approval, the updated rate of return will be applied prospectively until altered by the Commission.
5. The Parties agree that EKPC will use only actual property tax expense and actual insurance expense in the monthly surcharge calculation.
6. The Parties agree that EKPC will only include a pro-rated share of depreciation expense for eligible projects in the initial month of service when the commercial operation date of the project is something other than the first day of the month.
7. The Parties agree that the revenues from steam sales to Fleming-Mason/Inland Container will be included in the revenues, R (m), of the monthly surcharge calculation and that such sales will be subject to the environmental surcharge.
8. The Parties agree that the portion of the sales to Owen Electric/Gallatin Steel which are sourced from Louisville Gas & Electric pursuant to a Letter Agreement between EKPC and LG&E dated October 27, 1994, will be excluded from the revenues, R(m), and that the surcharge will not be charged to Owen/Gallatin on that portion of their revenues. This provision shall remain effective until the current Agreement between EKPC and LG&E is terminated.
9. The Parties agree that the on-peak portion of revenues from sales to Taylor County RECC for Tennessee Gas Pipeline (TGP) and to Fleming-Mason EC for TGP shall be excluded from the revenues, R(m), and that the surcharge will not be charged to Taylor County/TGP and Fleming-Mason EC/TGP on that portion of their revenues. All other sales to Taylor County RECC and Fleming Mason EC for service to TGP will be subject to the surcharge. This provision shall remain effective until the current Agreements are terminated.
10. The Parties agree that the sale of by-products from the Gilbert Unit, such as fly ash, bed ash and scrubber particles, will be credited to the revenue requirement in the monthly surcharge calculation.

11. EKPC agrees to perform, or have performed, a depreciation study on all of its assets within the two-year period commencing from the date of the Commission's Order in this proceeding. EKPC agrees to file an Application seeking approval of the Commission for the rates contained in the depreciation study for accounting and ratemaking purposes. EKPC will also seek the approval of RUS. Should the study be completed in advance of the two-year time period, EKPC agrees to file the study with the Commission within 60 days of completion.
12. The Parties agree to use a 12-month rolling average of O&M expenses for the surcharge calculation. The accounts subject to this provision are Accts. 50144, 50621, 50631, 50641, 50642, 50644, 50645, 51241, 51242, and 51244. The Parties agree that the environmentally-related O&M expenses for the Gilbert generating unit (Accts. 50144, 50644, 51244) shall be recovered by using the actual cost in month one of operation; for month two, use the average of expenses incurred in months one and two, for month three, use the average of expenses incurred in months one, two and three. This process will continue until the end of the first twelve months of operation at which time the Gilbert O&M costs will be treated like all other eligible O&M costs.
13. The Parties agree that EKPC and the distribution cooperatives will compute over/under recoveries for each month of each six-month review period and will seek approval to amortize the amount during a subsequent six-month review period. EKPC and the distribution cooperatives will be allowed to recommend an appropriate period of amortization, depending upon the size of the amortization amount.
14. EKPC will prepare an Emissions Allowance Strategy Plan for submittal to the Commission by no later than July 31, 2005. The study will focus on EKPC's strategy for purchasing SO₂ and NO_x allowances, as required, including the timing of such purchases.
15. EKPC agrees to include, for inventory balance and emission allowance expense purposes, the actual emission allowances purchased. Use of estimated emission allowance purchases shall not be permitted for surcharge recovery purposes. EKPC will only include emission allowances associated with coal-fired generating units in the surcharge calculation.
16. The Parties agree that the benefit from the sale of any allowances at the annual EPA auction shall be reflected as a credit in the emission allowance inventory and reflected in the average inventory price used in the computation of the monthly surcharge factor.
17. The Parties agree that the revenues associated with sales under the Green Power tariffs for EKPC and the Member Systems, as applicable, shall not be included in the denominator of the surcharge calculation nor subject to the environmental surcharge.

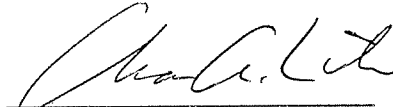
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18. The Parties agree that the methodology for billing the distribution cooperatives outlined in EKPC's testimony and exhibits will be utilized. The methodology allows the distribution cooperatives to bill their customers the environmental surcharge at approximately the same time as EKPC bills the environmental surcharge to the distribution cooperatives, thus avoiding a billing lag for the distribution cooperatives.
 19. EKPC has estimated the impact of the approval of the environmental surcharge on the distribution cooperatives and on their retail customers. EKPC has estimated that the surcharge factor will be 7.08% in the first full month, resulting in an estimated \$33.5 million in revenue annually. This is depicted in Attachment 3. The surcharge at the retail level is estimated to be 4.96% for the first month. For a residential customer using 1,000 kWh per month at an average rate of 6.5c/kWh, the increase is estimated to be about \$3.20 per month. The effect of the surcharge on each distribution cooperative and on their retail customers will vary depending upon the relationship of the level of purchased power to the total revenues of each distribution cooperative.
 20. Attachment 4 to this document provides the revised Environmental Surcharge Monthly Filing forms and tariff sheets in conformance with the provisions of this settlement. The attachment includes a redlined version compared to the original filing as well as a new version.

Other Provisions

21. The Parties will jointly move the Commission to amend EKPC's Application in PSC Case No. 2004-00321, as provided hereinabove, to approve EKPC's Environmental Compliance Plan on such amended terms, and to authorize EKPC to implement its Environmental Surcharge on such amended Compliance Plan effective for service rendered beginning April 1, 2005.
22. 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 supercede Chapter 278 of the Kentucky Revised Statutes. Nothing in this settlement shall be considered as precedent in future cases before the Commission.
23. Upon formal adoption and acceptance by the Commission of this Settlement Agreement as a full resolution of all issues arising from the proceedings in the subject cases, all Parties agree that no petition for rehearing, pursuant to KRS §278.400, nor any appeal, pursuant to KRS §278.410, will be filed by any Party.

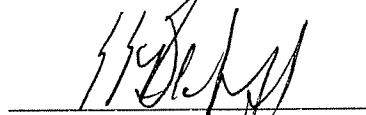
IN WITNESS WHEREOF, the duly authorized counsel for the Parties have affixed their signatures to this Settlement Agreement on the date first above written.

EAST KENTUCKY POWER
COOPERATIVE, INC. and
EKPC MEMBER SYSTEMS



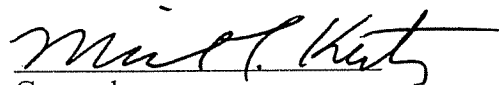
Counsel

OFFICE OF THE ATTORNEY
GENERAL



Counsel

GALLATIN STEEL COMPANY



Counsel

Support for BESF Per Settlement Agreement

	<u>\$ Amount</u>	<u>Total \$</u>	<u>Source</u>
1.	Depreciation Expense	501,570	Staff 8, p. 3 of 3, 1st Request
		70,778	Staff 8, p. 3 of 3, 1st Request
		<u>30,960</u>	Staff 8, p. 3 of 3, 1st Request
	Total	603,308	
2.	Oper & Mtce*	39,462	Page 2 of 2
	Air Permit Fees	<u>188,636</u>	Wood Exhibit 2, p. 1 of 1
	Total O & M	228,098	
3.	Property Tax	12,217	Staff 8, p. 3 of 3, 1st Request
		1,974	Staff 8, p. 3 of 3, 1st Request
		<u>861</u>	Staff 8, p. 3 of 3, 1st Request
		15,052	
4.	Insurance	<u>11,203</u>	Gallatin 10, 1st Request
		11,203	
 <u>Return on Rate Base</u>			
5.	Rate Base		
	Precip	8,144,692	Wood Exhibit 1, p. 1 of 11
	Preheater	1,315,867	Wood Exhibit 1, p. 9 of 11
	Fans	<u>573,729</u>	Wood Exhibit 1, p. 10 of 11
		10,034,288	
6.	Cash Working Capital (1/8 of O&M)	<u>28,512</u>	Line 5* 1/8
	Total Rate Base	10,062,800	
	Apply Rate of Return	7.58%	Gallatin 3 1st Request, P. 2 of 4
7.	Total Return on Rate Base	<u>762,760</u>	
8.	Total Costs	1,620,421	Line 1+2+3+4+7
9.	Calculation of % of Member System Revenues to total revenues including off-system sales.		
	Member Sys Rev	240,629,490	76.29%
	Off System Sales Revenue	<u>74,774,167</u>	<u>23.71%</u>
		315,403,657	100.00%
	Total Costs Incl Rate of Return	1,620,421	
	Exclusion of Off-System Sales	<u>76.29%</u>	
	Revenue Requirement	1,236,219	
	Member Sys Revenue	240,629,490	
	Rev Req / Mbr Sys Revenues	0.51%	

Oper & Mfce Expense Reconciliation--BESF	1993 Costs	SOURCE
1. Operation & Maintenance Costs	\$213,791	Gallatin Request 3, Attachment, Page 1 of 4
Elimination of O&M costs for Projects Not Tied to a Compliance Project		
2. Routine Ash System Maintenance	(\$86,526)	PSC First Data Request 13, Attachment, Page 1 of 1
3. Spurlock 2 Precipitator Maintenance	(\$68,787)	PSC First Data Request 13, Attachment, Page 1 of 1
4. Spurlock 2 Scrubber Maintenance	(\$19,016)	PSC First Data Request 13, Attachment, Page 1 of 1
O&M Cost for Settlement - BESF	\$39,462	Line 1 - Line 2 - Line 3 - Line 4

Weighted Average Cost of Debt

Compliance Project	Loan Source (1)	NBV as of 3/31/05 (2)	Cost (3)	Weights (4)=(2)*(3) (5)
1. Gilbert	Z-8	\$69,612,000	4.84%	1.696%
2. Spurlock 1 - Precipitator	Y-8	\$22,480,163	4.96%	0.561%
3. Spurlock 1 - SCR	Y-8	\$69,937,007	4.96%	1.746%
4. Spurlock 2 - SCR	Y-8	\$36,670,706	4.96%	0.915%
		<u>\$198,699,876</u>		<u>4.918%</u>

Y-8 30 year

Note Number (1)	Current Liability 12/31/04 (2)	Interest Rate (3)	Yearly Interest (4)	Composite Rate Total (4)/ Total (2) (5)
F0720	\$25,000,000	4.460%	\$1,115,000	
F0725	\$25,000,000	4.819%	\$1,204,750	
F0730	\$24,800,000	4.950%	\$1,227,600	
F0750	\$25,000,000	5.091%	\$1,272,750	
F0755	\$25,000,000	5.149%	\$1,287,250	
F0760	\$25,000,000	5.065%	\$1,266,250	
F0765	\$25,000,000	5.011%	\$1,252,750	
F0770	\$27,000,000	5.149%	\$1,390,230	
	\$201,800,000		\$10,016,580	4.96%

Z8 34 Year

Note Number (1)	Current Liability 12/31/04 (2)	Interest Rate (3)	Yearly Interest (4)	Composite Rate Total (4)/ Total (2) (5)
F0810	\$50,000,000	4.744%	\$2,372,000	
F0815	\$50,000,000	4.825%	\$2,412,500	
F0820	\$50,000,000	4.946%	\$2,473,000	
	\$150,000,000		\$7,257,500	4.84%

ATTACHMENT 3

Environmental Surcharge: Recoverable Dollars

Based on Weighted Average Cost of Debt of: 4.918% @ 12/31/04 with TIER of 1.15 = 5.66%

Line No.	Description (1)	Estimated Value 3/31/2005 (2)	RORB: Col. (2) x 5.66% (3)	Annual Depreciation Expense (4)	Annual O&M Expense (5)	Taxes and Insurance (6)	Environmental Surcharge Recoverable \$ (3)+(4)+(5)+(6)= (7)
I. Return on Rate Base, Depreciation, Taxes and Insurance							
1	Gilbert	\$69,612,000	\$3,940,039	\$0			\$3,940,039
2	Spurlock 1- Precipitator	\$22,480,163	\$1,272,377	\$988,139		\$68,822	\$2,329,338
3	Spurlock 1 - SCR	\$69,937,007	\$3,958,435	\$3,702,644		\$214,110	\$7,875,189
4	Spurlock 2 - SCR	\$36,670,706	\$2,075,562	\$2,575,036		\$112,266	\$4,762,864
5	SO2 Allowance Inventory	\$14,166,551	\$801,827				\$801,827
6	NOx Emission Allowance Inventory	\$0	\$0				\$0
7	Cash Working Capital	\$178,605	\$10,109				\$10,109
8	Spare Parts & Limestone Inventory	\$0	\$0				\$0
II. Other Expenses							
9	O&M Expense (including Air Permit Fees)				\$1,428,839		\$1,428,839
10	O&M Expense - Gilbert				\$0		\$0
11	SO2 Emission Allowance Expenses				\$14,816,460		\$14,816,460
12	NOx Emission Allowance Expenses				\$0		\$0
Totals		\$213,045,032	\$12,058,349	\$7,265,819	\$16,245,299	\$395,198	\$35,964,665
13	Monthly Surcharge Allocation Factor	99.79%					
14	Recoverable Dollars = Monthly Surcharge Allocation Factor x Total ES Recoverable \$	\$35,889,139					
15	Projected Electric Energy Revenues from Member Systems in year ending March 31, 2005	\$472,783,000					
16	CESF: Recoverable \$ / Revenues	7.59%					
17	BESF	0.51%					
18	MESF (Line 16 - Line 17)	7.08%					
19	Recoverable Dollars (Line 15* 7.08%)	\$ 33,473,036					

EAST KENTUCKY POWER COOPERATIVE, INC

RATE ES – ENVIRONMENTAL SURCHARGE

APPLICABILITY

Applicable to all sections of this rate schedule and this rate schedule shall apply to each Member System.

AVAILABILITY

This rate schedule shall apply to EKPC rate sections A, B, C, E, and G and all special contracts with rates subject to adjustment upon the approval of the Commission.

RATE

The Environmental Surcharge shall provide for monthly adjustments based on a percent of revenues equal to the difference between the environmental compliance costs in the base period and in the current period based on the following formula:

$$CESF = E(m) / R(m)$$

$$MESF = CESF - BESF$$

MESF = Monthly Environmental Surcharge Factor

CESF = Current Environmental Surcharge Factor

BESF = Base Environmental Surcharge Factor of 0.51%

where E(m) is the total of each approved environmental compliance plan revenue requirement of environmental costs for the current expense month and R(m) is the revenue for the current expense month as expressed below.

Definitions

$$(1) E(m) = [(RB/12)(RORB) + OE - BAS + (Over)Under Recovery$$

where:

(a) RB is the Environmental Compliance Rate Base, defined as electric plant in service and CWIP for applicable environmental projects adjusted for accumulated depreciation, cash working capital, spare parts and limestone inventory, emission allowance inventory;

(b) RORB is the Rate of Return on the Environmental Compliance Rate Base, designated as the average cost of debt for environmental compliance plan projects approved by the Commission plus application of a times-interest-earned ratio of 1.15;

DATE OF ISSUE September 17, 2004 DATE EFFECTIVE Service rendered beginning April 1, 2005

ISSUED BY _____ TITLE PRESIDENT/CEO

Issued by authority of an Order of the Public Service Commission of Kentucky in

CASE NO. _____ DATED _____

EAST KENTUCKY POWER COOPERATIVE, INC

-
- (c) OE is the Monthly Pollution Control Operating Expenses, defined as the average of the twelve month operating and maintenance expense; depreciation expense, property taxes, insurance expense, emission allowance expense, and consulting fees. O&M expense for the pollution-control related equipment at the Gilbert generating unit will be recovered by including an average of the monthly expense as the Unit begins operation;
- (d) BAS is the net proceeds from By-Products and Emission Allowance Sales, and;
- (e) (Over) or Under recovery amount as amortized from prior six-month period.

(2) Total E(m) is multiplied by the Member System Allocation Ratio to arrive at Net E(m). The Member System Allocation Ratio is based on the ratio of the 12-month total revenue from sales to Member Systems to which the Surcharge will be applied, ending with the current expense month, divided by the 12-month total revenue from sales to Member Systems and off-system sales.

(3) The revenue R(m) is the average monthly revenue, including base revenues and automatic adjustment clause revenues less Environmental Cost Recovery Surcharge revenues, for EKPC for the twelve months ending with the current expense month.

(4) The current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

DATE OF ISSUE September 17, 2004 DATE EFFECTIVE Service rendered beginning April 1, 2005

ISSUED BY _____ TITLE PRESIDENT/CEO

Issued by authority of an Order of the Public Service Commission of Kentucky in
CASE NO. _____ DATED _____

FOR ENTIRE TERRITORY SERVED
Community, Town or City

P.S.C. KY. NO. _____

Original _____ SHEET NO. _____

Member System
(Name of Utility)

CLASSIFICATION OF SERVICE

RATES SCHEDULE ES – ENVIRONMENTAL SURCHARGE

AVAILABILITY

In all of the Company's service territory.

APPLICABILITY

This rate schedule shall apply to all electric rate schedules and special contracts.

RATE

$$CES(m) = ES(m) - BESF$$

where CES(m) = Current Month Environmental Surcharge Factor
ES(m) = Current Month Environmental Surcharge Calculation
BESF = Base Environmental Surcharge Factor of 0%

$$ES(m) = \left[\left((WESF) \times (\text{Average of 12-months ended revenues from sales to Member System for current expense month, excluding environmental surcharge}) + (\text{Over})/(\text{Under Recovery}) \right) \text{ divided by } \right. \\ \left. \left[\text{Average of 12-months ending Retail Revenue (excluding environmental surcharge)} \right] \right] = \text{_____} \%$$

where WESF = Wholesale Environmental Surcharge Factor for Current Expense Month

DATE OF ISSUE September 17, 2004
Month / Date / Year

DATE EFFECTIVE April 1, 2005
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE PRESIDENT/CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

FOR ENTIRE TERRITORY SERVED
Community, Town or City

P.S.C. KY. NO. _____

Original _____ SHEET NO. _____

Member System
(Name of Utility)

CLASSIFICATION OF SERVICE

(Over)/Under Recovery =

6-months cumulative (over)/under recovery as defined by amount billed by EKPC to Member System minus the amount billed by Member System to retail customer. Over or under recoveries shall be amortized over a six-month period.

BESF = zero

BILLING

The current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

DATE OF ISSUE September 17, 2004
Month / Date / Year

DATE EFFECTIVE April 1, 2005
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE PRESIDENT/CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

EAST KENTUCKY POWER COOPERATIVE, INC

DATE OF ISSUE September 17, 2004
Month / Date / Year

DATE EFFECTIVE April 1, 2005
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE PRESIDENT/CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

EAST KENTUCKY POWER COOPERATIVE, INC

RATE ES – ENVIRONMENTAL SURCHARGE

APPLICABILITY

Applicable to all sections of this rate schedule and this rate schedule shall apply to each Member System.

AVAILABILITY

This rate schedule shall apply to EKPC rate sections A, B, C, E, and G and all special contracts with rates subject to adjustment upon the approval of the Commission.

RATE

The Environmental Surcharge shall provide for monthly adjustments based on a percent of revenues equal to the difference between the environmental compliance costs in the base period and in the current period based on the following formula:

$$\text{CESF} = \text{E(m)} / \text{R(m)}$$

$$\text{MESF} = \text{CESF} - \text{BESF}$$

MESF = Monthly Environmental Surcharge Factor

CESF = Current Environmental Surcharge Factor

BESF = Base Environmental Surcharge Factor of 0.51%

where E(m) is the total of each approved environmental compliance plan revenue requirement of environmental costs for the current expense month and R(m) is the revenue for the current expense month as expressed below.

Definitions

$$(1) \text{E(m)} = [(\text{RB}/12)(\text{RORB}) + \text{OE} - \text{BAS} + (\text{Over})\text{Under Recovery}]$$

where:

(a) RB is the Environmental Compliance Rate Base, defined as electric plant in service and CWIP for applicable environmental projects adjusted for accumulated depreciation, cash working capital, spare parts and limestone inventory, emission allowance inventory;

(b) RORB is the Rate of Return on the Environmental Compliance Rate Base, designated as the average overall cost of debt for environmental compliance plan projects approved by the Commission updated every six months plus application of a times-interest-earned ratio of 1.15;

DATE OF ISSUE September 17, 2004 DATE EFFECTIVE Service rendered beginning April 1, 2005

ISSUED BY _____ TITLE PRESIDENT/CEO

Issued by authority of an Order of the Public Service Commission of Kentucky in

CASE NO. _____ DATED _____

EAST KENTUCKY POWER COOPERATIVE, INC

- (c) OE is the Monthly Pollution Control Operating Expenses, defined as the average of the twelve month incremental operating and maintenance expense; (+/-) depreciation expense property taxes, insurance expense, emission allowance expense, and consulting fees, adjusted for average monthly expense included in base rates; O&M expense for the pollution-control related equipment at the Gilbert generating unit will be recovered by including an average of the monthly expense as the Unit begins operation.
- (d) BAS is the net proceeds from By-Products and Emission Allowance Sales, and;
- (e) (Over) or Under recovery amount as amortized from prior six-month period.

(2) Total E(m) is multiplied by the Member System Allocation Ratio to arrive at Net E(m). The Member System Allocation Ratio is based on the ratio of the 12-month total revenue from sales to Member Systems to which the Surcharge will be applied, ending with the current expense month, divided by the 12-month total revenue from sales to Member Systems and off-system sales.

(3) The revenue R(m) is the average monthly revenue, including base revenues and automatic adjustment clause revenues less Environmental Cost Recovery Surcharge revenues, for EKPC for the twelve months ending with the current expense month.

(4) The current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

DATE OF ISSUE September 17, 2004 DATE EFFECTIVE Service rendered beginning April 1, 2005

ISSUED BY _____ TITLE PRESIDENT/CEO

Issued by authority of an Order of the Public Service Commission of Kentucky in

CASE NO. _____ DATED _____

FOR ENTIRE TERRITORY SERVED
Community, Town or City

P.S.C. KY. NO. _____

Original _____ SHEET NO. _____

Member System
(Name of Utility)

CLASSIFICATION OF SERVICE

RATES SCHEDULE ES – ENVIRONMENTAL SURCHARGE

AVAILABILITY

In all of the Company's service territory.

APPLICABILITY

This rate schedule shall apply to all electric rate schedules and special contracts.

RATE

$$CES(m) = ES(m) - BESF$$

where CES(m) = Current Month Environmental Surcharge Factor
ES(m) = Current Month Environmental Surcharge Calculation
BESF = Base Environmental Surcharge Factor of 0%

$$ES(m) = \left[\left((WESF) \times (\text{Average of 12-months ended revenues from sales to Member System for current expense month, excluding environmental surcharge}) + (\text{Over})/(\text{Under Recovery}) \right) \text{ divided by } \left[\text{Average of 12-months ending Retail Revenue (excluding environmental surcharge)} \right] \right] = \text{_____} \%$$

where WESF = Wholesale Environmental Surcharge Factor for Current Expense Month

DATE OF ISSUE September 17, 2004
Month / Date / Year

DATE EFFECTIVE April 1, 2005
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE PRESIDENT/CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

FOR ENTIRE TERRITORY SERVED
Community, Town or City

P.S.C. KY. NO. _____

Original _____ SHEET NO. _____

Member System
(Name of Utility)

CLASSIFICATION OF SERVICE

(Over)/Under Recovery =

6-months cumulative (over)/under recovery as defined by amount billed by EKPC to Member System minus the amount billed by Member System to retail customer. Over or under recoveries shall be amortized over a six-month period.

BESF = zero

BILLING

The current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

DATE OF ISSUE September 17, 2004
Month / Date / Year

DATE EFFECTIVE April 1, 2005
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE PRESIDENT/CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

EAST KENTUCKY POWER COOPERATIVE, INC

DATE OF ISSUE September 17, 2004
Month / Date / Year

DATE EFFECTIVE April 1, 2005
Month / Date / Year

ISSUED BY _____
(Signature of Officer)

TITLE PRESIDENT/CEO

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report

Form 1.0

Calculation of Monthly Billed Environmental Surcharge Factor - MESF

For the Expense Month Ending March 31, 2005

$$\text{MESF} = \text{CESF} - \text{BESF}$$

Where:

CESF = Current Period Environmental Surcharge Factor
BESF = Base Period Environmental Surcharge Factor

Calculation of MESF:

CESF, from ES Form 1.1 =
BESF, from Case No. 2004-00321 = 0.51%

MESF = _____

Effective Date for Billing: _____

Submitted by:

Date Submitted:

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report

Form 1.1

Calculation of Current Month Environmental Surcharge Factor (CESF)

For the Expense Month Ending March 31, 2005

1 $E(m) = RORB + OE - BAS$

2 Rate Base

3 Rate Base / 12

4 Rate of Return =

5 Return on Rate Base (RORB) +

6 Operating Expenses (OE) +

7 By-Product and Emission Allowance Sales (BAS) - _____

8 Sub-Total E(m)

9 Member System Allocation Ratio for the Month
(Form 3.0)

10 Subtotal E(m) = Subtotal E(m) x Member System
Allocation Ratio

11 Adjustment for (Over)/Under Recovery,
as applicable

12 E(m) = Subtotal E(m) plus (Over)/Under Recovery

13 R(m) = Average Monthly Member System
Revenue for the 12 Months Ending with the
Current Expense Month (Form 3.0)

14 CESF:
 $E(m) / R(m)$; as a % of Revenue

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report

Form 2.0

Revenue Requirements of Environmental Compliance Costs
For the Expense Month of Ending March 31, 2005

Determination of Environmental Compliance Rate Base

Eligible Pollution Control Plant (Gross Plant)	
Eligible Pollution CWIP	_____
Subtotal	
<i>Additions:</i>	
Inventory - Spare Parts	
Inventory - Limestone	
Inventory - Emission Allowances	
Cash Working Capital Allowance	_____
Subtotal	
<i>Deductions</i>	
Accumulated Depreciation on Eligible Pollution Control Plant	_____
Subtotal	_____
Environmental Compliance Rate Base	

Determination of Pollution Control Operating Expenses

Monthly O&M Expense	
Monthly Depreciation and Amortization Expense	
Monthly Taxes Other Than Income Taxes	
Monthly Insurance Expense	
Monthly Emission Allowance Expense	
Monthly Surcharge Consultant Fee	_____
Total Pollution Control Operating Expense	

Gross Proceeds from By-Product and Emission Allowance Sales

Total Proceeds from By-Product and Allowance Sales	_____
--	-------

**(Over)/Under Recovery of Monthly
Surcharge Due to Timing Differences**

1	E(m) Revenue Requirement for Six Month Period Ending _____	\$
2	Revenue Collected for Six-Month Period Ending _____	\$
3	Net (Over)/Under Recovery (Row 1 - Row 2)	\$
4	Amortization of Net (Over)/Under Recovery Line (3) / 6	\$

Form 2.1

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report
Plant, CWIP, Depreciation, & Taxes and Insurance Expenses
For the Month Ending March 31, 2005

(1) Project No.	(2) Description	(3) Eligible Gross Plant in Service	(4) Eligible Accumulated Depreciation	(5) CWIP Amount	(6) Eligible Net Plant in Service <small>(2)-(3)-(4)+(5)</small>	(7) Monthly Depreciation Expense	(8) Monthly Taxes and Insurance Expense
1	Gilbert						
2	Spurlock 1 Precipitator						
3	Spurlock 1 SCR						
4	Spurlock 2 SCR						
	Total						

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report

Form 2.2

Inventories of Spare Parts and Limestone

For the Month Ending March 31, 2005

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Beginning Inventory	Purchases	Other Adjustments	Utilized	Ending Inventory	Reason(s) for Adjustment
					(2)+(3)+(4)-(5)	
Spare Parts						
Limestone						
Total						

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report

Inventory and Expense of Emission Allowances

For the Month ending March 31, 2005

SO2 Allowances

<i>Month Ending March 31, 2005</i>					
	Beginning Inventory	Allocations/ Purchases	Utilized	Sold	Ending Inventory
Total SO2 Emission Allowances in Inventory*					
Quantity					
Dollars					
\$/Allowance					

NOx Allowances

<i>Month Ending March 31, 2005</i>					
	Beginning Inventory	Allocations/ Purchases	Utilized	Sold	Ending Inventory
Total NOx Emission Allowances in Inventory*					
Quantity					
Dollars					
\$/Allowance					

*Includes coal-fired allowances only.

East Kentucky Power Cooperative, Inc. **Form 2.4**
Environmental Surcharge Report
O&M Expenses and Determination of Cash Working Capital Allowance

For the Expense Month Ending March 31, 2005

Eligible O&M Expenses	Non-Gilbert	Gilbert	Total
11th previous month			
10th previous month			
9th previous month			
8th previous month			
7th previous month			
6th previous month			
5th previous month			
4th previous month			
3rd previous month			
2nd previous month			
Previous month			
Current month			
Total 12 Month O&M			
Average Monthly O&M			

Determination of Working Capital Allowance			
12 Months O&M Expense			
One-Eighth (1/8) of 12 Month O&M Expenses			

East Kentucky Power Cooperative, Inc.
Environmental Surcharge
Operating and Maintenance Expenses
For the Expense Month Ending March 31, 2005

Form 2.5

Expense Type	Account Description	Amount
I Maintenance		
50144	Fuel Coal Gilbert	
51241	Maintenance of Boiler Plant Spurlock 1	
51242	Maintenance of Boiler Plant Spurlock 2	
51244	Maintenance of Boiler Plant Gilbert	

		=====
II Air Permit Fees		
50621	Misc Steam Power Environmental Dale	
50631	Misc Steam Power Environmental Cooper	
50645	Misc Steam Power Environmental Spurlock	

		=====
III Operating Expense - Ammonia and Limestone		
50641	Misc Steam Power Expense - Spurlock 1	
50642	Misc Steam Power Expense - Spurlock 2	
50644	Misc Steam Power Expense - Gilbert	

		=====

Form 3.0

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report
Monthly Average Revenue Computation of R(m)

For the Month Ended March 31, 2005

Revenues from Member Systems						Total Company Revenues		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Month	Base Rate Revenues	Fuel Clause Revenues	Environmental Surcharge Revenues	Total (2)+(3)+(4)	Total Excluding Environmental Surcharge (5)-(4)	Off-System Sales	Total (5)+(7)	Total Excluding Environmental Surcharge (8)-(4)
Apr-04								
May-04								
Jun-04								
Jul-04								
Aug-04								
Sep-04								
Oct-04								
Nov-04								
Dec-04								
Jan-05								
Feb-05								
Mar-05								
Totals								
Average Monthly Member System Revenues, Excluding Environmental Surcharge, for 12 Months Ending Current Expense Month.								
						Member System Allocation Percentage for Current Month (Environmental Surcharge excluded from Calculations): Column (6) / Column (9) =		

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report

Form 1.0

Calculation of Monthly Billed Environmental Surcharge Factor - MESF

For the Expense Month Ending March 31, 2005

$$\text{MESF} = \text{CESF} - \text{BESF}$$

Where:

CESF = Current Period Environmental Surcharge Factor

BESF = Base Period Environmental Surcharge Factor

0

Calculation of MESF:

CESF, from ES Form 1.1

=

BESF, from Case No. 2004-00321

=

0.51%

MESF

=

Effective Date for Billing: _____

Submitted by:

Date Submitted:

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report

Form 1.1

Calculation of Current Month Environmental Surcharge Factor (CESF)

For the Expense Month Ending March 31, 2005

1 $E(m) = RORB + OE - BAS$

2 Rate Base

3 Rate Base / 12

4 Rate of Return =

5 Return on Rate Base (RORB) +

6 Operating Expenses (OE) +

7 By-Product and Emission Allowance Sales (BAS) - _____

8 Sub-Total E(m)

9 Member System Allocation Ratio for the Month
(Form 3.0)

10 Subtotal E(m) = Subtotal E(m) x Member System
Allocation Ratio

11 Adjustment for (Over)/Under Recovery,
as applicable

12 E(m) = Subtotal E(m) plus (Over)/Under Recovery

13 R(m) = Average Monthly Member System
Revenue for the 12 Months Ending with the
Current Expense Month (Form 3.0)

14 CESF:
E(m) / R(m); as a % of Revenue

**East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report**

Form 2.0

Revenue Requirements of Environmental Compliance Costs
For the Expense Month of Ending March 31, 2005

Determination of Environmental Compliance Rate Base

Eligible Pollution Control Plant (Gross Plant)	
Eligible Pollution CWIP	_____
Subtotal	
<i>Additions:</i>	
Inventory - Spare Parts	
Inventory - Limestone	
Inventory - Emission Allowances	
Cash Working Capital Allowance	_____
Subtotal	
<i>Deductions</i>	
Accumulated Depreciation on Eligible Pollution Control Plant	_____
Subtotal	_____
Environmental Compliance Rate Base	

Determination of Pollution Control Operating Expenses

Monthly O&M Expense	
Monthly Depreciation and Amortization Expense	
Monthly Taxes Other Than Income Taxes	
Monthly Insurance Expense	
Monthly Emission Allowance Expense	
Monthly Surcharge Consultant Fee	_____
Total Pollution Control Operating Expense	

Gross Proceeds from By-Product and Emission Allowance Sales

Total Proceeds from By-Product and Allowance Sales	_____
--	-------

**(Over)/Under Recovery of Monthly
Surcharge Due to Timing Differences**

1	E(m) Revenue Requirement for Six Month Period Ending _____	\$
2	Revenue Collected for Six-Month Period Ending _____	\$
3	Net (Over)/Under Recovery (Row 1 - Row 2)	\$
4	Amortization of Net (Over)/Under Recovery Line (3) / 6	\$

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report

Form 2.2

Inventories of Spare Parts and Limestone

For the Month Ending March 31, 2005

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Beginning Inventory	Purchases	Other Adjustments	Utilized	Ending Inventory	Reason(s) for Adjustment
					(2)+(3)+(4)-(5)	
Spare Parts						
Limestone						
Total						

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report

Inventory and Expense of Emission Allowances

For the Month ending March 31, 2005

SO2 Allowances

<i>Month Ending March 31, 2005</i>					
	Beginning Inventory	Allocations/ Purchases	Utilized	Sold	Ending Inventory
Total SO2 Emission Allowances in Inventory*					
Quantity					
Dollars					
\$/Allowance					

NOx Allowances

<i>Month Ending March 31, 2005</i>					
	Beginning Inventory	Allocations/ Purchases	Utilized	Sold	Ending Inventory
Total NOx Emission Allowances in Inventory*					
Quantity					
Dollars					
\$/Allowance					

*Includes coal-fired allowances only.

East Kentucky Power Cooperative, Inc. Form 2.4
Environmental Surcharge Report
O&M Expenses and Determination of Cash Working Capital Allowance

For the Expense Month Ending March 31, 2005

Eligible O&M Expenses	Non-Gilbert	Gilbert	Total
11th previous month			
10th previous month			
9th previous month			
8th previous month			
7th previous month			
6th previous month			
5th previous month			
4th previous month			
3rd previous month			
2nd previous month			
Previous month			
Current month			
Total 12 Month O&M			
Less: Baseline			
Average Monthly O&M			
12-months Incremental O&M			
Monthly Incremental O&M			

Determination of Working Capital Allowance			
12 Months Incremental O&M Expense			
One-Eighth (1/8) of 12 Month Incremental O&M Expenses			

East Kentucky Power Cooperative, Inc.
Environmental Surcharge
Operating and Maintenance Expenses
For the Expense Month Ending March 31, 2005

Expense Type	Account Description	Amount	Amt. for 12 months ended 12/31/1993	Eligible Recovery
I	Maintenance			
	50144 Fuel Coal Gilbert			
	51240 Maintenance of Boiler Plant Spurlock			
	51241 Maintenance of Boiler Plant Spurlock 1			
	51242 Maintenance of Boiler Plant Spurlock 2			
	61243 Maintenance of Boiler Plant Scrubber			
	51244 Maintenance of Boiler Plant Gilbert			
	55351 Maintenance of Generating Equipment CT			
		<hr/>		
II	Air Permit Fees			
	50621 Misc Steam Power Environmental Dale			
	50631 Misc Steam Power Environmental Cooper			
	50645 Misc Steam Power Environmental Spurlock			
	54961 Environmental Expense CT			
		<hr/>		
		<hr/>		
III	Operating Expense - Ammonia and Limestone			
	50641 Misc Steam Power Expense - Spurlock 1			
	50642 Misc Steam Power Expense - Spurlock 2			
	50644 Misc Steam Power Expense - Gilbert			
		<hr/>		
		<hr/>		

Form 3.0

East Kentucky Power Cooperative, Inc.
Environmental Surcharge Report
Monthly Average Revenue Computation of R(m)

For the Month Ended March 31, 2005

Revenues from Member Systems					Total Company Revenues			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Month	Base Rate Revenues	Fuel Clause Revenues	Environmental Surcharge Revenues	Total (2)+(3)+(4)	Total Excluding Environmental Surcharge (5)-(4)	Off-System Sales	Total (5)+(7)	Total Excluding Environmental Surcharge (8)-(4)
Apr-04								
May-04								
Jun-04								
Jul-04								
Aug-04								
Sep-04								
Oct-04								
Nov-04								
Dec-04								
Jan-05								
Feb-05								
Mar-05								
Totals								
Average Monthly Member System Revenues, Excluding Environmental Surcharge, for 12 Months Ending Current Expense Month.								
					Member System Allocation Percentage for Current Month (Environmental Surcharge excluded from Calculations): Column (6) / Column (9) =			