



EAST KENTUCKY POWER COOPERATIVE

February 16, 2005

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

RECEIVED

FEB 17 2005

Re: PSC Case No. 2004-00321
PSC Case No. 2004-00372

PUBLIC SERVICE
COMMISSION

Dear Ms. O'Donnell:

East Kentucky Power Cooperative, Inc., ("EKPC") hereby requests the Public Service Commission to provide in its final order in this case for a July 1, 2005 effective date for EKPC's Environmental Surcharge, and for the retail flow-through of that surcharge by EKPC's member systems, if the Settlement Agreement dated February 2, 2005 is approved. The grounds for this request to delay implementation of the surcharge, from the April 1, 2005 date stated in the Settlement Agreement, are set out in the attached statement of EKPC.

If there are any questions about this request, please contact me, or David Eames, at EKPC headquarters.

Very truly yours,

Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Elizabeth E. Blackford, Esq.- Office of the Attorney General
Michael L. Kurtz, Esq.- Counsel for Gallatin Steel Co.
Richard Raff, Esq.- PSC Staff Counsel
Isaac Scott- PSC Staff

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PSC Case No. 2004-00321
East Kentucky Power Cooperative, Inc. (“EKPC”)
Request To Delay Implementation of
Environmental Surcharge

The Settlement Agreement in this case requests an effective date of April 1, 2005 for EKPC’s Environmental Surcharge, if approved by the Commission. That date was selected by EKPC to coincide with the anticipated commercial operation date of the E.A. Gilbert Generating Unit at Spurlock Station (the “Gilbert Unit”). Since the Settlement Agreement was submitted to the Commission, some of EKPC’s member systems have requested that the implementation date be delayed to moderate the effect of adding the new Surcharge to Spring 2005 retail bills which will include relatively high Fuel Adjustment Clause charges relating to fuel and power purchase costs for winter months.

EKPC has evaluated the feasibility of requesting a delay of the implementation of the Environmental Surcharge for three months, which would make the Surcharge effective for service rendered on or after July 1, 2005. Such a delay would amount to a \$7 million to \$8 million revenue reduction for EKPC, compared to an April 1, 2005 implementation. EKPC believes that it can absorb this revenue reduction without severe disruptions to its cash flow, which is a concern that has been expressed by the Commission staff. EKPC’s recent delay in purchasing emission allowances until January 2005, as discussed with the Commission staff during the settlement negotiations, was a result of cash flow constraints caused by the construction of the Gilbert Unit and delays in obtaining advances from a then-pending Rural Utilities Service loan. That \$433,863,000 loan has been approved and EKPC has used proceeds from the loan to reimburse EKPC funds used for construction and to pay off short term borrowing from the National Rural Utilities Cooperative Finance Corporation (“CFC”). EKPC’s short

term cash flow difficulties which delayed the purchase of allowances have, therefore, been resolved. The proposed delay in implementing the Environmental Surcharge should not present such cash flow problems during the three months of the delay.

EKPC believes that it can accommodate this request of its member distribution systems without major adverse impact. The concept has been presented to the other Parties to the Settlement Agreement, the Attorney General and Gallatin Steel Company, and no objections have been raised beyond the cash flow concerns discussed above. EKPC requests that the implementation for its Environmental Surcharge be set for service rendered on and after July 1, 2005 in the Commission's final order in this case, if the Settlement Agreement is approved.