



EAST KENTUCKY POWER COOPERATIVE

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COMMISSION

January 21, 2005

HAND DELIVERED

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

Re: PSC Case No. 2004-00464

Dear Ms. O'Donnell:

Enclosed find an original and six copies of East Kentucky Power Cooperative, Inc.'s Responses to Information Requests pursuant to the PSC Order dated December 13, 2004 in the above case. Also enclosed are prepared testimonies of Frank Oliva and Jerry Bordes of this office.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Dale W. Henley".

Dale W. Henley
General Counsel

dwh/ln

c: Elizabeth Blackford, Esq. – Office of Attorney General
Michael L. Kurtz, Esq. – Boehm, Kurtz & Lowry

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF)
THE FUEL ADJUSTMENT CLAUSE OF EAST) CASE NO. 2002-00464
KENTUCKY POWER COOPERATIVE, INC.)
FROM NOVEMBER 1, 2002 TO OCTOBER 31, 2004)

PREPARED TESTIMONY OF GERALD B. BORDES
ON BEHALF OF
EAST KENTUCKY POWER COOPERATIVE, INC.

Q. 1 Please state your name and address.

A. My name is Jerry Bordes, and my work address is P. O. Box 707, Winchester, Kentucky 40392-0707.

Q. 2 By whom are you employed and in what capacity?

A. I am employed by East Kentucky Power Cooperative, Inc. ("EKPC"), as Production Services Manager.

Q. 3 As background for your testimony, please briefly describe your education background and work experience.

A. I have a Bachelor of Science degree in Chemistry from Cumberland College. I have worked for EKPC for the past 30 years. I was Fuel Manager from 1978 to 1991, Power Production Manager from 1991 to 2002, and I have been in my current position with EKPC since February 2002. I am responsible for the cooperative's fuel procurement activities.

Q. 4 Has EKPC utilized reasonable fuel procurement practices in the period under review?

A. Yes. EKPC's fuel procurement objectives are to ensure an adequate supply of fuel of proper quality, purchased at competitive prices, and in accordance with the requirements of lending and regulatory agencies; to ensure ethical, fair, and sound business practices are followed; and to avoid any conflict of interest or appearance of any such conflict of interest. Various fuel procurement techniques, such as formal competitive bids, informal competitive bids, spot purchases, and any such negotiations as may be appropriate are utilized.

Q. 5 Have coal suppliers to EKPC complied with contract delivery schedules during the review period?

A. No. One supplier cancelled contract deliveries to EKPC's three power stations through bankruptcy court. At various times during the review period, other various contract and spot suppliers have been delinquent on deliveries for various periods of times.

Q. 6 What steps does EKPC take to ensure supplier compliance with those delivery schedules?

A. Fuel buyers are assigned to specific power plants to purchase, administer, and schedule coal purchase agreements. These buyers monitor coal deliveries on a daily basis and communicate with the power plants and coal suppliers on a routine basis. Delivery schedules are adjusted, as needed, and when required, suppliers are put on notice when not meeting commitments. When justified, EKPC has adjusted transportation rates to facilitate deliveries.

Q. 7 What steps would EKPC take to maintain an adequate supply of coal if a supplier became unwilling or unable to meet its supply obligations?

A. Although it seldom happens, if negotiated revisions to the contract commitments cannot be reached, then the coal supplier would be placed in breach of contract, and litigation

might be pursued. EKPC has also, at times, cancelled contract tonnage that has not been delivered on time if EKPC does not need the tonnage or can replace the tonnage at a lower price.

Q. 8 What changes have occurred during the review period or that EKPC expects to occur in the next two years that have significantly impacted or will significantly impact EKPC's fuel procurement practices?

A. EKPC has seen a consolidation in the number of coal suppliers over the past two years, several bankruptcy proceedings, and expects that a further consolidation of suppliers could occur. Although EKPC's fuel procurement practices have not been significantly impacted by changes during the review period and EKPC does not foresee any changes over the next two years that will significantly impact its fuel procurement practices, these changing events and/or supplier changes could precipitate changes in procurement practices.

Q. 9 Does this conclude your testimony?

A. Yes.

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FROM NOVEMBER 1, 2002 TO OCTOBER 31, 2004)**

**PREPARED TESTIMONY OF FRANK OLIVA
ON BEHALF OF
EAST KENTUCKY POWER COOPERATIVE, INC.**

Q. 1 Please state your name and address.

A. My name is Frank Oliva, and my business address is P. O. Box 707, Winchester,
Kentucky 40392-0707.

Q. 2 By whom are you employed and in what capacity?

A. I am employed by East Kentucky Power Cooperative, Inc. ("EKPC"), as Manager of
Finance, Planning and Risk Management.

Q. 3 As background for your testimony, please briefly describe your education background
and work experience.

A. I have a B.S. degree in Accounting from the University of Kentucky and a Masters
degree in Business Administration from Xavier University. I have worked for EKPC for
the past 26 years. I served as General Accounting Supervisor from 1978 to 1985, Finance
Manager from 1985 to 2002, and I have been in my current position with EKPC since
February 2002. My responsibilities include power supply planning and power purchases
for the cooperative.

Q. 4 Have changes occurred in the wholesale electric power market during the review period, or does EKPC expect changes in that market to occur within the next 2 years, that have significantly affected, or will significantly affect, EKPC's electric power procurement practices ?

A. 4 The wholesale electric power market has changed significantly over the past two years and could change considerably more during the next two years. The credit crunch involving power marketers has greatly reduced both the number of creditworthy counterparties and the liquidity of the power markets. Wholesale market prices of power traded at the Cinergy hub (on a 5x16 basis) have increased by at least 15% since 2002. Transmission congestion has also become more common.

While market liquidity may improve over the next two years, there are several other factors that may impact EKPC's power procurement practices. Natural gas and coal prices continue to be significantly higher than two years ago, contributing to the increase in the wholesale market price of power. EKPC had been evaluating joining the Midwest ISO, but has decided not to join at the present time. Even so, EKPC will most likely be a MISO market participant. Currently, the market activity that takes place is strictly through bilateral arrangements between market participants. In March 2005, MISO is scheduled to launch a centralized energy market, characterized by a single optimized dispatch, locational marginal prices (LMPs) which reflect transmission constraints as well as other system parameters, and financial transmission rights (FTRs) which provide a hedge against transmission congestion. Even though a goal of MISO's centralized market is to create a more efficient dispatch than what is currently being done on a control area by control area basis, LMP markets in other parts of the country have

been characterized by periodic bouts of high energy prices and price volatility.

Federal energy legislation could be enacted in 2005 and the Environmental Protection Agency may issue the Clean Air Interstate Rule, affecting air quality standards to be met by generation utilities. Forward power prices for the 2005-2006 timeframe are 30% over 2004 calendar year price levels. These factors could have a significant impact on EKPC's power procurement practices.

Q. 5 Does this conclude your testimony?

A. Yes.