

RECEIVED
JUN 26 2006
PUBLIC SERVICE
COMMISSION

June 23, 2006

FACSIMILE AND MAIL

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

Re: PSC Case No. 2005-00053

Dear Ms. O'Donnell:

East Kentucky Power Cooperative, Inc. ("EKPC") wishes to advise the Commission of the urgency of certain circumstances concerning equipment and construction contracts for the Smith Station Circulating Fluidized Bed ("CFB") and Combustion Turbine ("CT") Generating Units which are the subject of the above-referenced case, and to seek the assistance of the Commission in expediting the review of any issues remaining in the case.

In EKPC's design and engineering contracts with major component vendors for the generating units proposed at Smith Station, and in certain bids selected for major project components, EKPC's options for the release of procurement and fabrication of such equipment, pending the issuance of construction certificates by the Commission, are subject to deadlines. Those deadlines are imminent for some long-lead time components. Failure to release the vendors by those dates may expose EKPC to substantial price increases, and may cause EKPC to lose limited production schedule slots for critical components which are in high demand. The attachments to this letter identify the contracts with critical release deadlines in the next few months, and provide estimates of the potential cost and schedule delay impacts of missing those dates. These estimates for the CFB unit are based on current market information provided by EKPC's consulting engineer, Stanley Consultants, Inc. General Electric is the supplier and installer of the CT units. An e-mail from General Electric, describing the CT project impacts, is included.

EKPC recognizes that the Commission's review of this case may have been further extended as a result of the delay in the completion of the National Environmental Policy Act ("NEPA") environmental review of the project, which is required by the Rural Utilities Service ("RUS"). EKPC had anticipated that it would be able to document its

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Ms. Elizabeth O'Donnell
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compliance with this NEPA review of the project, to satisfy the requirements of the Site Compatibility Certificate, pursuant to KRS §278.216. However, because that review has not been completed, EKPC submitted supplemental information in the case on May 5, 2006, to complete the requirements for a Site Assessment Report. We regret any confusion or additional burden on the Commission staff that this change has caused.

EKPC understands that the Commission staff must complete a thorough review of the Site Assessment Report before the Site Compatibility Certificate can be issued. We believe that there are no site compatibility issues in this case which are substantially different from those involved in PSC Case No. 2003-00297, which involved the approval of Combustion Turbines 6 and 7 at Smith Station, wherein EKPC filed a Site Assessment Report, pursuant to KRS §278.216. EKPC's site assessment regarding those CTs was approved for NEPA compliance by the RUS through the issuance of a Finding of No Significant Impact dated November 24, 2003, which is also attached hereto. This means that essentially the same site compatibility issues for Smith Station have been previously reviewed by the Commission, and that a similar Finding of No Significant Impact is very likely to be issued by RUS in the current site review.

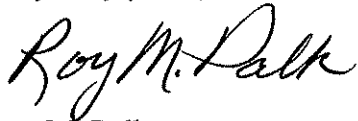
Due to the urgency of the contract deadlines, EKPC is seeking to expedite the review of such site issues, and any other remaining issues in the case. EKPC proposes that an informal conference may be the most expedient way to address such remaining issues, but EKPC staff will be prepared to participate in any meetings, conferences, or other processes that the Commission, or the other parties to the case, feel are needed, and will attempt to quickly provide any additional information by any means that the Commission staff and the parties prefer.

EKPC plans to continue negotiations with Smith Station project contractors regarding the short term deadlines, and hopes that an on-going process to speed a final decision in this case by the Commission may persuade the vendors to delay decisions on those contracting deadlines which could lead to the adverse impacts discussed above. However, we have no assurances that the vendors will cooperate with such efforts, so it remains urgent that we explore any options for quickly completing this case.

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We hope that the Commission can accommodate this request, which we know will be of substantial benefit to EKPC and its member systems. We are prepared to discuss this request, and to proceed with any suggested course of action, at the Commission's convenience.

Very truly yours,



Roy M. Palk
President and Chief Executive Officer

Enclosures

Cc: Service List
Richard Raff, Esq.

Attachment 1

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JUN 26 2006
PUBLIC SERVICE
COMMISSION

CFB UNIT CONTRACT IMPACTS



Stanley Consultants INC.

A Stanley Group Company
Engineering, Environmental and Construction Services - Worldwide

June 23, 2006

Mr. Randy Dials
Vice President, Production
East Kentucky Power Cooperative
4775 Lexington Road
P.O. Box 707
Winchester, KY 40392-0707

Dear Randy:

Subject: Smith Station Generation
PSC Certificate of Convenience and Necessity
PSC Case No. 2005-00053
Cost Impacts of Delays

This letter has been prepared to document additional costs, which will be incurred by East Kentucky Power Cooperative, Inc. (EKPC) if an impending July 1, 2006 deadline cannot be met for release of certain contracts related to the Smith Station Circulating Fluidized Bed Generating Unit. These contracts include the procurement of long-lead time equipment items and the release of certain EPC (engineering – procurement – construction) contracts for design and material purchase.

The power industry is currently experiencing a period of severe inflation brought upon by a number of concurrent factors including:

- Heavy demand for coal-fired power generating facilities both in the United States and world-wide.
- A limited numbers of vendors that supply power plant equipment due to industry consolidations, buyouts, etc. over the past two decades. Vendors are currently at their production capacity. Delivery times are continuing to increase.
- A booming construction industry in general which has lead to shortages of construction labor, construction equipment such as cranes, and shop capacity for off-site component fabrication of duct work, structural steel, silos, tanks, hoppers, and similar items.
- The falling value of the US dollar.
- Shortages of basic raw materials such as metals (copper, steel, alloys) used for pipe and tubing, electrical cables and switchgear, structural steel, equipment, etc. for power plant construction. For example, the price of copper has risen over 50 percent in the past year.
- Rising fuel prices.

EKPC currently has bids in hand for certain long-lead equipment such as the condenser, feedwater heaters, boiler feed pumps, etc. If EKPC is unable to execute agreements in the near future, these vendor

This document was sent electronically

Mr. Randy Dials
June 23, 2006
Page 2

proposals will expire. This will result in EKPC losing manufacturing slots in vendor facilities, expose EKPC to another round of material inflation when the equipment is re-bid, and delay the commercial operating date for power production from Smith Unit 1.

The following are estimated additional costs to construct Smith Unit 1 with delays from one to four months in receiving the PSC Certificate of Convenience and Necessity. In the current environment, vendors will not guarantee prices for more than a few weeks.

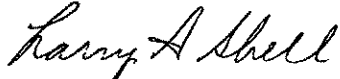
| <u>Certificate Date</u> | <u>Additional Cost Impact</u> |
|-------------------------|-------------------------------|
| August 1, 2006 | \$36.1 million |
| September 1, 2006 | \$45.3 million |
| October 1, 2006 | \$54.2 million |
| November 1, 2006 | \$63.0 million. |

For additional details, refer to the attachment.

The PSC should be urged to act as quickly as possible to avoid additional costs to EKPC's owner-ratepayers.

Sincerely,

Stanley Consultants, Inc.



Larry Shell, P.E.
Vice President

Attachments

cc: Craig Johnson – EKPC
General Files 18500

las:las:mc:musfs-1:18500L15.doc

**EAST KENTUCKY POWER COOPERATIVE
SMITH STATION UNIT 1**

Critical Schedule Dates

| <u>Item Description</u> | <u>Date Required</u> |
|---|----------------------|
| PSC Certificate of Need and Convenience | March 2, 2006 |
| Award Boiler Feed Pumps & Chimney | April 11, 2006 |
| Award Feedwater Heaters, Condenser, Cooling Tower & Deaerator | June 13, 2006 |
| Begin Turbine Shell Manufacture | July 5, 2006 |
| Air Permit | June 1, 2007 |
| Begin Foundations | June 4, 2007 |
| Begin Steel Erection | October 8, 2007 |
| Building Enclosed | October 27, 2008 |
| Commercial Operation | March 5, 2010 |

Impact of Delay

PSC approval is required to award contracts for equipment and construction. The PSC approval date on which the most current project schedule is based is March 2, 2006. In anticipation of receiving PSC approval, bids were taken for critical long-lead time equipment. Expiration has already occurred on several equipment bids with the remainder expiring over the next 2 months. This equipment includes the feedwater heaters, condenser, boiler feed pumps, deaerator, chimney, cooling tower, etc. The current bids for Smith 1 equipment range from 10 percent to 36 percent higher than the contract prices for similar equipment for Spurlock Unit 4 awarded a year earlier. Expiration of the bids for Smith 1 will require taking new bids at substantially higher prices to reflect 4 months of inflation since these bids were originally received. Other equipment and material prices such as structural steel also continue to escalate.

Manufacture of the steam turbine shell is scheduled to begin in early July by General Electric. A loss of the July manufacturing slot for the steam turbine shell will result in a 4-month delay in manufacturing until another slot becomes available, the shipment of the completed turbine parts, and thus construction and operation of Smith 1. The extended schedule will increase the amount of interest during construction (IDC) incurred by EKPC and labor costs. Due to the delay in availability of the Smith unit to produce power, EKPC will be forced to buy additional power on the open market to meet its member's needs.

A one month delay in receiving PSC approval will result in a 4-month overall schedule impact.

| | |
|------------------------------|-----------------------|
| Material Escalation | \$14.3 million |
| Labor Escalation | \$ 4.8 million |
| Interest During Construction | \$ 1.0 million |
| Purchase Power Costs | <u>\$16.0 million</u> |

Total \$36.1 million

Similarly, a two month delay in PSC approval will result in a 5-month construction delay, which will increase the plant cost by \$45.3 million. A three month period until PSC approval will extend the completion date by 6 months and increase costs by \$54.2 million. A 4-month time until PSC issue of the certificate will lengthen the project by 7 months costing \$63 million. These projections are linear and do not necessarily assure that manufacturing capability will be available when needed. Thus more extended delays could have additional cost impacts.



THERMAL
ENGINEERING
INTERNATIONAL

Condenser

East Kentucky Power Cooperative
P.O. Box 0707
4475 Lexington Road
Winchester, KY 40392-0707

April 28th, 2006

Stanley Consultants Inc.
Stanley Building
225 Iowa Avenue
Muscatine, IA 52761

Attention: Mr. Craig Johnson
Ms. Diana Pulliam
East Kentucky Power C

Mr. Larry Shell
Stanley Consultants

Subj: Steam Surface Conde
Smith Station Unit #1
TEI's Ref: 06173 C&I
Rev. 0

Ladies and Gentlemen:

Thermal Engineering International (TEI) is pleased to have the opportunity presented by East Kentucky Power Cooperative. We are confident that TEI will continue to provide exceptional quality and service for the upcoming project as previously experienced on Gilbert Unit #3 and Spurlock Unit #4.

It is our understanding that the equipment for Smith Unit #1 is to be identical to that previously provided with Spurlock Unit #4 with some slight modifications to the condenser. Therefore, our design is based on the latest design accordingly.

We look forward to another success between our respective companies. Should you have any comment or questions, please do not hesitate to contact this office.

Best Regards;
THERMAL ENGINEERING INTERNATIONAL

Geoffrey Greenberg
Director of Sales & Mktg.
Ph: 323-838-1176
Email: ggreenberg@thermalengint.com

RECEIVED MAY 01 2006

PROJECT AND CONTRACT IDENTIFICATION

This Proposal pertains to Contract G11E44 - Condenser for the Spurlock-Smith Station Unit 1 Unit 4 Project, for East Kentucky Power Cooperative, Inc.

Article 1. BID RECIPIENT

1.1 This Proposal is submitted to: East Kentucky Power Cooperative, Inc.
Attn: Mr. Craig Johnson
P. O. Box 0707
4775 Lexington Road
Winchester, KY 40392-0707

1.2 The undersigned Bidder proposes and agrees, if this Proposal is accepted, to enter into a Contract with Owner in the form included in the Bidding Documents to furnish the Equipment and Special Services as specified or indicated in the Bidding Documents for the prices and within the times indicated in this Proposal and in accordance with the other terms and conditions of the Bidding Documents.

Article 2. BIDDER'S ACKNOWLEDGMENTS

2.1 Bidder accepts all of the terms and conditions of the Notice and Instructions to Bidders, including without limitation those dealing with the disposition of Proposal security. The Proposal will remain subject to acceptance for 90 days after the Proposal opening, or for such longer period of time that Bidder may agree to in writing upon request of Owner.

2.2 Bidder accepts the provisions of the Equipment Contract as to liquidated damages in the event of its failure to furnish the Equipment and Special Services in accordance with the schedule set forth in the Equipment Contract.

Article 3. BIDDER'S REPRESENTATIONS

3.1 In submitting this Bid, Bidder represents, as set forth in the Agreement, that:

3.1.1 Bidder has examined and carefully studied the Bidding Documents, the other related data identified in the Bidding Documents, and the following Addenda, receipt of all which is hereby acknowledged.

| Addendum No. | Addendum Date |
|--------------|---------------|
| None | |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

3.1.2 If specified, or if in Bidder's judgment, any local condition may affect cost, progress or the furnishing of Equipment and Special Services, Bidder has visited the Point of Destination and become familiar with and is satisfied as to the local conditions that may affect cost, progress, or the furnishing of Equipment and Special Services.

3.1.3 Bidder is familiar with and is satisfied as to all federal, state and local Laws and Regulations that may affect cost, progress and the furnishing of Equipment and Special Services.

3.1.4 Bidder has carefully studied and correlated the information known to Bidder, and information and observations obtained from Bidder's visits, if any, to the Point of Destination with the Bidding Documents.

ECODYNE Limited

4475 Corporate Drive
Burlington, Ontario L7L 5T9
Telephone: 905/332-1404
Telefax: 905/332-6726
INTERNET: info@ecodyne.com

May 1, 2006

Deaerator

East Kentucky Power Cooperative
Attention: Mr. Craig Johnson
4775 Lexington Road
P.O. Box 707
Winchester, KY, 40392-0707

Gentlemen:

**Re: East Kentucky Power Cooperative – Smith Unit 1
Contract G8 - Deaerator
Ecodyne Proposal No. 2958**

We thank you for the opportunity of bidding on the above referenced equipment. Please find enclosed original copy of our Ecodyne Proposal No. 2958 for your consideration.

We trust you will find our offering complete. If you should have any questions, please do not hesitate to contact us directly or our representative in your area:

C. A. McAnly Associates
Suite O, 7908 Cincinnati Dayton Road
West Chester, OH, 45069

Attention: C. A. "Mac" McAnly
Telephone: 513-779-1377
Fax No: 513-779-0296

Thank you again for the opportunity of quoting and we hope to be of further service.

Yours very truly

ECODYNE LIMITED

R. Vertesi

Robert L. Vertesi, P.Eng.
Sales Department

RV:mg
Encls.

One Copy To:
East Kentucky Power Cooperative, Inc.
Attention: Ms. Diana Pulliam
Maysville, KY, 41056

Two Copies To:
Stanley Consultants, Inc.
Attention: Mr. Larry Shell
Muscatine, IA, 52761

PROJECT AND CONTRACT IDENTIFICATION

This Proposal pertains to Contract FG8 - Deaerator for the ~~Spurlock Station Unit 4~~Smith Station Unit 1 Project, for East Kentucky Power Cooperative, Inc.

Article 1. BID RECIPIENT

- 1.1 This Proposal is submitted to: East Kentucky Power Cooperative, Inc.
Attn: Mr. Craig Johnson
P. O. Box 0707
4475 Lexington Road
Winchester, KY 40392-0707
- 1.2 The undersigned Bidder proposes and agrees, if this Proposal is accepted, to enter into a Contract with Owner in the form included in the Bidding Documents to furnish the Equipment and Special Services as specified or indicated in the Bidding Documents for the prices and within the times indicated in this Proposal and in accordance with the other terms and conditions of the Bidding Documents.

Article 2. BIDDER'S ACKNOWLEDGMENTS

- 2.1 Bidder accepts all of the terms and conditions of the Notice and Instructions to Bidders, including without limitation those dealing with the disposition of Proposal security. The Proposal will remain subject to acceptance for 120 days after the Proposal opening, or for such longer period of time that Bidder may agree to in writing upon request of Owner.
- 2.2 Bidder accepts the provisions of the Equipment Contract as to liquidated damages in the event of its failure to furnish the Equipment and Special Services in accordance with the schedule set forth in the Equipment Contract.

Article 3. BIDDER'S REPRESENTATIONS

- 3.1 In submitting this Bid, Bidder represents, as set forth in the Agreement, that:
 - 3.1.1 Bidder has examined and carefully studied the Bidding Documents, the other related data identified in the Bidding Documents, and the following Addenda, receipt of all which is hereby acknowledged.

| Addendum No. | Addendum Date |
|--------------|---------------|
| <u>NONE</u> | _____ |
| _____ | _____ |
| _____ | _____ |
 - 3.1.2 If specified, or if in Bidder's judgment, any local condition may affect cost, progress or the furnishing of Equipment and Special Services, Bidder has visited the Point of Destination and become familiar with and is satisfied as to the local conditions that may affect cost, progress, or the furnishing of Equipment and Special Services.
 - 3.1.3 Bidder is familiar with and is satisfied as to all federal, state and local Laws and Regulations that may affect cost, progress and the furnishing of Equipment and Special Services.
 - 3.1.4 Bidder has carefully studied and correlated the information known to Bidder, and information and observations obtained from Bidder's visits, if any, to the Point of Destination with the Bidding Documents.



Pump Division

*Boiler Feed
Pumps*

March 8, 2006

East Kentucky Power Cooperative
4775 Lexington Road
P.O. Box 707
Winchester, KY 40392-0707

Attn: Mr. Craig Johnson

Subject: Stanley Consultants, Inc.
East Kentucky Power Cooperative
Smith Unit 1
Contract G21 - Boiler Feed Pumps

Flowserve Proposal No: 3835-60005

Flowserve and Superior Industrial Equipment Company are pleased to submit our proposal in response to the above referenced project. Attached for your review are the requested proposals one (1) original and one (1) copy, describing the details of the boiler feed pump equipment offered in the commercial and technical sections.

We have proposed the Flowserve / Byron Jackson Model HDB Multistage, Volute Style, Double Case Barrel Pump with a Model HDX single stage, double suction booster pump, a fluid drive and an electric motor driver similar the equipment previously ordered on Spurlock Unit 4. Prices quoted are FOB Jobsite near Maysville, Kentucky, freight included, valid for thirty (30) days from this date and firm through delivery. Due to the volatility in both the metal markets and currency exchange rates, we wish to emphasize the importance of our quoted bid validity. Please contact this office for validity review as you project schedule necessitates.

We appreciate the opportunity to offer our quality products and look forward to working with you further on this project. Should you have any questions concerning this proposal or require any additional information, please feel free to contact me at (908) 859-7152, or you can contact your local Superior Industrial Equipment Company Sales Engineer (Stephen R. Keifer) at (815) 758-3898 or email: skiefer@superiorpumps.com.

Very truly yours,

FLOWSERVE PUMP DIVISION

Zach Procita
Project Engineer

CC: Stephen R. Kiefer / Superior Industrial Equipment Company

Customer: EKPC / Stanley Consultants
Project: Smith Unit 1

Contract No: G21
FLS Proposal: 3835-60005

SPX Cooling Technologies

Balcke | Hamon Dry Cooling | Marley

SPX Cooling Technologies
7401 W 129 Street
Overland Park, KS 66213 USA
Phone: +1 913 664 7400
Fax: +1 913 664 7439
www.spxcooling.com

Cooling Tower

May 2, 2006

East Kentucky Power Cooperative, Inc.
4775 Lexington Road
Winchester, KY 40392-0707
Tel.: 859.744.4812
Email: Craig.Johnson@ekpc.coop
Attention: Mr. Craig Johnson

Project: Smith Station – Unit 1

Dear Mr. Johnson;

Thank you for allowing SPX Cooling Technologies, Inc. to become a partner in the success of the above mentioned project. Please find enclosed one original proposal.

A second layer of eliminators is required to guarantee the drift rate requirement of 0.0005% of the design water flow rate. The additional price of the material and labor are shown in the price breakdown sheet.

Commercial clarifications and Proposal Notes to the contract are sealed in a separate envelope as your Proposal Check List requested.

Commodity costs for lumber, steel, plastics, freight and labor have increased in the past year since the Unit 4 tower was quoted. The Price Breakdown Sheets, One Price Sheet with Optional Items are added to the proposal. A detailed description of the commodity changes will be presented at the negotiation meeting. Commercial clarification are included for discussion, since the scope and project site have changed.

We look forward to meeting with your team for discussion.

Should you have any questions or require further information, please do not hesitate to contact Brian Bridgeford of Stoermer-Anderson at 513.527.7737.

Sincerely,



Robert Fleming
SPX Cooling Technologies, Inc.
Tel.: 913.664.7617
Email: robert.fleming@marleyct.spx.com
CC. See Second Page

RECEIVED MAY 02 2006

RECEIVED MAY 03 2006

PROJECT AND CONTRACT IDENTIFICATION

This Proposal pertains to Contract ~~G222E222~~ – Cooling Tower for the ~~Spurlock-Smith~~ **Smith Station Unit 1 Unit 4** Project, for East Kentucky Power Cooperative, Inc.

Article 1. BID RECIPIENT

- 1.1 This Proposal is submitted to: East Kentucky Power Cooperative, Inc.
Attn: Mr. Craig Johnson
P. O. Box 0707
4775 Lexington Road
Winchester, KY 40392-0707
- 1.2 The undersigned Bidder proposes and agrees, if this Proposal is accepted, to enter into an Contract with Owner in the form included in the Construction Contract - Generating to perform the Work as specified or indicated in the Construction Contract - Generating for the prices and within the times indicated in this Proposal and in accordance with the other terms and conditions of the Construction Contract - Generating.

Article 2. BIDDER'S ACKNOWLEDGMENTS

- 2.1 Bidder accepts all of the terms and conditions of the Notice and Instructions to Bidders, including without limitation those dealing with the disposition of bid security. The Proposal will remain subject to acceptance for 90 days after the Proposal opening, or for such longer period of time that Bidder may agree to in writing upon request of Owner.
- 2.2 Bidder accepts the provisions of the Contract as to liquidated damages in the event of its failure to perform the Work in accordance with the schedule set forth in the Contract.

Article 3. BIDDER'S REPRESENTATIONS

- 3.1 In submitting this Proposal, Bidder represents, as set forth in the Contract, that:
 - 3.1.1 Bidder has examined and carefully studied the Construction Contract - Generating; the other related data identified in the Construction Contract - Generating, and the following Addenda, receipt of all which is hereby acknowledged.

| Addendum No. | Addendum Date |
|--------------|---------------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
 - 3.1.2 Bidder has carefully studied all reports of explorations and tests of subsurface conditions at or contiguous to the Site and all drawings of physical conditions in or relating to existing surface or subsurface structures at or contiguous to the Site (except Underground Facilities) which have been identified as provided in paragraph 4.02 of the General Conditions, and
 - 3.1.3 Bidder has obtained and carefully studied (or assumes responsibility for having done so) all additional or supplementary examinations, investigations, explorations, tests, studies and data concerning conditions (surface, subsurface and Underground Facilities) at or contiguous to the Site which may affect cost, progress, or performance of the Work or which relate to any aspect of the means, methods, techniques, sequences, and procedures of construction to be employed by Bidder, including applying the specific means, methods, techniques, sequences, and procedures of construction expressly required by the Construction Contract - Generating to be employed by Bidder, and safety precautions and programs incident thereto.

Power
Customer Services Division

June 21, 2006

Mr. Craig Johnson
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
Winchester, KY 40391

Subject: **Target Price for Smith Station Unit #1**

Dear Mr. Johnson:

We are pleased to provide East Kentucky Power with a revised Target Price, for Unit #1, to be located at the Smith site. This Target Price has been generated in support of EKPC's plan to garner approval of ALSTOM's contract at the upcoming July 2006 Board meeting, and to finalize ALSTOM's contract in August 2006. The pricing was derived using a combination of sources including vendor quotes, marketplace pricing of components from other recent contracts, estimates, as well as a forecast of future market conditions the project is likely to be subject to. This represents an attempt by ALSTOM Power to reflect a reasonable project price under volatile market conditions without leaving EKPC fully exposed to this market uncertainty.

The Target Price is subject to final adjustment (up or down) by ALSTOM Power based on final invoicing received from our vendors, but in any case, not lower than as indicated in ALSTOM's April 7, 2006 letter which will be used as a benchmark. [REDACTED]

[REDACTED] Please note that this revised offer does not reflect pricing for either ramp rate guarantee or reliability guarantee, which are presently under evaluation by ALSTOM Power.

In an attempt to equitably deal with the marketplace issues ALSTOM Power currently faces, should Board approval and finalization of ALSTOM's contract take place as described above such that ALSTOM Power is granted a Full Notice to Proceed (FNTP) by August 31, 2006, ALSTOM Power will maintain a slot for executing Smith 1, FNTP work commencing no earlier than January 2, 2007. However, should ALSTOM Power not receive a FNTP by August 31, 2006 the project would be subject to significant schedule delays as a result of other existing commitments.

Per the Alstom Power, April 7, 2006 revised Target Price letter, a delay in issuance of FNTF to ALSTOM Power by April 14, 2006 would result in a day for day delay in both ALSTOM's deliverables and the project's Commercial Operation (CO) date. Due to internal workload and marketplace volatility, ALSTOM Power's project schedule must remain subject to adjustments once FNTF is received, and ALSTOM Power has the opportunity to reserve internal capacity and to secure vendor commitments.

In support of our Target Price development we've attached the individual BU estimate sheets for your review.

Boiler Estimate



EBN June 06

Knoxville Estimate



ECS - June 06

APCOM Power Estimate



APCom June-06

Chattanooga Estimate



Chatt June 06

Alstom Power's Smith Unit #1 Target price, is as follows:

| | |
|-----------------------------------|----------------------------------|
| 1) Unit #1 Eng /Material | \$ [REDACTED] million USD |
| 2) Unit #1 Construction | \$ [REDACTED] million USD |
| <u>Total Unit #1 Target Price</u> | <u>\$ [REDACTED] million USD</u> |

Total Cap value is \$ [REDACTED] million USD

The balance of our letter remains essentially unchanged from that submitted on 4/7/06, except for some additional clarifications as noted from our 4/12/06 review. It is retained here solely in the interest of maintaining a single working controlling document for everyone's ease of reference.



April 06

The final computation of the Aux. Power Guarantee in Proposal Section 5.4.

| | |
|--------------------------|--------------|
| Guarantee June 27, 2005: | 3,775Kw |
| Remove 2 FBHE blowers | -1126 |
| Add 1 FBHE blower | +563 |
| Add 5 of 6 Screw Coolers | <u>+100</u> |
| New Guarantee: | 3,312 Kw |

If you have any questions or would like to discuss further, please do not hesitate to call either Jeff McCartney at (330) 283-4851, or Chris King at (860) 285-5246 with any questions. Thank you in advance for your consideration.

Sincerely,
ALSTOM Power

Jeffrey S. McCartney
Account Executive / GPS
330.283.4851 Cell
412.373.6610 Office

Chris King
Project Director
(860) 573-3596 Cell
(860) 285-5246 Office

cc: R. Dials, EKPC, D. Philo AP, J. Millikan AP, B. Abney AP,
F. Dion AP, C. Sherwood AP, M. Phillips AP

ALSTOM Power Inc.
2000 Day Hill Road
Windsor, CT 06095
Tel: (860)285-2464
Fax: (860)285-5129



March 10, 2006

East Kentucky Power Cooperative
4775 Lexington Road
Winchester, KY 40392-0707
Attn: Craig Johnson

Kansas City Branch
1575 Universal Ave., Suite 230
Kansas City, MO 64120
Phone 816-231-7400
Fax 816-241-5582
www.pullmanpower.com

Chimney

Subject: Smith Station Unit #1
Contract G221- Chimney
Pullman Power Proposal No. 14119

Dear Mr. Johnson:

We are pleased to present our Proposal No. 14119 for the design and construction of the Unit No. 1 Chimney at your Smith Station, located in Trapp, KY.

Our Proposal has been prepared in response to the document prepared by Stanley Consultants for Contract G221- Chimney. Please note that our proposed construction schedule is based upon working six (6) days per week during construction of the reinforced concrete chimney column. Once the concrete work is completed, we would return to working a 48 hour week with casual overtime.

We look forward to meeting with you when the board is available. In the interim, should you have any questions, please do not hesitate to contact us.

Sincerely yours,

James L. Naylor, III
Vice President
Sales & Marketing

JLN/ksh
Enclosures

Cc: Larry Shell- Stanley Consultants

PROJECT AND CONTRACT IDENTIFICATION

This Proposal pertains to Contract G221- Chimney for the Smith Station Unit 1 Project, for East Kentucky Power Cooperative.

Article 1. BID RECIPIENT

- 1.1 This Proposal is submitted to: East Kentucky Power Cooperative, Inc.
Attn: Mr. Craig Johnson
P. O. Box 0707
4775 Lexington Road
Winchester, KY 40392-0707
- 1.2 The undersigned Bidder proposes and agrees, if this Proposal is accepted, to enter into an Contract with Owner in the form included in the Construction Contract - Generating to perform the Work as specified or indicated in the Construction Contract - Generating for the prices and within the times indicated in this Proposal and in accordance with the other terms and conditions of the Construction Contract - Generating.

Article 2. BIDDER'S ACKNOWLEDGMENTS

- 2.1 Bidder accepts all of the terms and conditions of the Notice and Instructions to Bidders, including without limitation those dealing with the disposition of bid security. The Proposal will remain subject to acceptance for 90 days after the Proposal opening, or for such longer period of time that Bidder may agree to in writing upon request of Owner.
- 2.2 Bidder accepts the provisions of the Contract as to liquidated damages in the event of its failure to perform the Work in accordance with the schedule set forth in the Contract.

Article 3. BIDDER'S REPRESENTATIONS

- 3.1 In submitting this Proposal, Bidder represents, as set forth in the Contract, that:
 - 3.1.1 Bidder has examined and carefully studied the Construction Contract - Generating, the other related data identified in the Construction Contract - Generating, and the following Addenda, receipt of all which is hereby acknowledged.

| Addendum No. | Addendum Date |
|--------------|---------------|
| N/A | _____ |
| _____ | _____ |
| _____ | _____ |
 - 3.1.2 Bidder has carefully studied all reports of explorations and tests of subsurface conditions at or contiguous to the Site and all drawings of physical conditions in or relating to existing surface or subsurface structures at or contiguous to the Site (except Underground Facilities) which have been identified as provided in paragraph 4.02 of the General Conditions, and
 - 3.1.3 Bidder has obtained and carefully studied (or assumes responsibility for having done so) all additional or supplementary examinations, investigations, explorations, tests, studies and data concerning conditions (surface, subsurface and Underground Facilities) at or contiguous to the Site which may affect cost, progress, or performance of the Work or which relate to any aspect of the means, methods, techniques, sequences, and procedures of construction to be employed by Bidder, including applying the specific means, methods, techniques, sequences, and

Yuba
Heat
Transfer LLC

2121 N. 161st East Avenue
Tulsa, OK 74116
918 234 -6000
Fax 918 234-3345
www.yuba.com

A Connell
Limited Partnership
Company

Kanti Shah
Manager of Estimating /
Sr. Sales Engineer
Phone: 918-234-5535
Fax: 918-234-3345
Email: Shahk@Yuba.com

Yuba

May 01, 2006

East Kentucky Power Cooperative
4475 Lexington Road
Winchester, Kentucky 40392-0707

Attention: Mr. Craig Johnson

Subject: Contract G6 (Feedwater Heaters)
Smith Station Unit 1
LP and H.P. Feedwater Heaters
Yuba Proposal QH-5416-06

*Feedwater
Heaters*

Dear Mr. Johnson:

We are pleased to submit the original proposal in answer to your recent inquiry. Thank you for selecting Yuba as your supplier of subject equipment.

We have included technical data and recommended practices for the equipment we are quoting. The design information and recommended practices are the result of knowledge gained during the production of over 6000 feedwater heaters in an environment of continuous improvement and learning.

SCOPE OF SUPPLY

Four (4) Feedwater Heaters (2LP & 2 HP) per the enclosed Yuba Feedwater Heater Specification Sheets EH-3, EH-5, EH-6 & EH-7, Stanley Consultants FWH Specification sheet Nos. X-34, X-35, X-36 & X-37 and Bidder Data and Information – Section 00434.

These heaters are almost duplicates of previous Yuba Job No. 05-H-220 and EKPC Contract F6 for Unit #4.

VALIDITY

This proposal is valid for acceptance through May 31, 2006. Should your evaluation extend beyond this time, we will be glad to review our proposal pricing and delivery and provide an update to you.

DELIVERY

Based on East Kentucky Power Cooperative issuing a purchase order within the stated validity period, the delivery of the feedwater heater will be as stated in the Proposal Form 198. (475 days after receipt of the written order.)

Yuba

BUY AMERICAN

Major components shall be of domestic origin. However, it may be necessary for us to use foreign materials for such items as studs, nuts, SA-335-P11 or P22 pipe and some welding consumables due to the lack of domestic sources. The following approved Yuba welding manufacturers are not domestic companies and they do not manufacture welding materials here in the USA: ESAB, Sandvick, Kobelco, Avesta, and Bohler-Thyssen. Sandvick and ESAB are the approved sources for approximately 70-80% of all Yuba weld procedures and qualification tests. Therefore, we will request your acceptance of materials from non-domestic sources. Materials obtained maintain the quality standards required by Code. We assume these deviations are permissible under the circumstances.

Except as expressly modified herein, all other stated terms and conditions remains per previous EKPC Contract F6 for Unit #4 and Yuba Job No. 05-H-220.

SHOP DRAWING

We will provide the following drawings in the instruction manual for your plant personnel's use:

1. Gasket schedule.
2. Tube Layout Drawing.
3. Support plate location drawing
4. Spare parts list.

If other than a setting plan drawing is required, the enclosed ownership and confidentiality form must be signed by an officer of your company and returned with the purchase order for the above equipment.

NOISE LEVELS

Please note that whilst we acknowledge your limitations on noise levels that the specific component defined in Yuba's proposal is a stationary piece of equipment. Noise limitations are only imposed on moving parts such as pumps, ejectors and fans and are therefore not normally applicable to stationary components that typically exhibit low noise levels under satisfactory / normal working conditions.

HELIUM TEST

Helium test will be performed on welded tube ends to tubesheet only.

ISO 9001

We would like to highlight that Yuba is certified to ISO 9001. We feel that this is a significant step in the continuous improvement process of our Yuba organization and that

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Email: Shahk@Yuba.com

Yuba

this will certainly be a benefit to you in our working together to the successful completion of this project.

We appreciate this opportunity to be of service to you on this project. Should we be of additional assistance during your bid evaluation, please feel free to contact us at (918) 234-5535 or our sales representative, Mr. Rick Sparrow of The Lathrop-Trotter Company, at (513) 731-5000.

We look forward to working with you on this project.

Very truly yours,

Kanti Shah

Kanti Shah
Manager of Estimating / Sr. Sales Engineer
Phone: 918-234-5535
Fax: 918-234-3345
Email: Shahk@Yuba.com

cc: Samir R. Naifeh – Vice President, Sales
Direct Dial: 918-234-5503

Lathrop-Trotter

Stanley Consultants, Inc
Attn: Larry Shell
225 Iowa Avenue
Muscatine, IA 52761
Tele: 563-264-6455
(2) copies

East Kentucky Power Cooperative, Inc
Attn: Diana W. Pulliam, Contract Administrator
1301 W. 2nd St.
Maysville, KY 41056
(1) copy

Attachment 2

RECEIVED
JUN 26 2006
PUBLIC SERVICE
COMMISSION

CT UNITS CONTRACT IMPACTS

LMS100's

From: Rodgers, Brian D (GE Infra, Energy)
[\[mailto:brian.rodgers@ps.ge.com\]](mailto:brian.rodgers@ps.ge.com)
Sent: Wednesday, June 21, 2006 2:41 PM
To: Tom Edwards
Cc: Michael Storm; Robert Anderson; Russell Thompson
Subject: Combustion Turbines for J.K. Smith Station

Tom,

You have asked us to provide information on the cost and schedule impacts of the delay of the Notice to Proceed (NTP) on the 5 x LMS100 combustion turbine project at your J.K. Smith station. A review of the circumstances will help to put our response in perspective.

The contract price and installation schedule for the combustion turbines are based on the assumption that a Notice to Proceed would be issued by September 1, 2005. An NTP cannot be issued until the Kentucky PSC approves the project. The contract provides that pricing and/or schedule may be adjusted if the NTP is delayed beyond September 1, 2005.

Since the NTP has in fact been delayed, GE has been working to determine the affect of the delay on both price and schedule. Our analysis has been complicated by several factors:

- 1) We have no firm start or completion dates.
- 2) Our vendors and subcontractors are reluctant to provide firm estimates to us due to the schedule uncertainty and increasing commodity prices.
- 3) Commodity prices, especially for steel, nickel, aluminum and copper have been increasing at a significant rate.
- 4) The demand for and cost of construction labor is expected to increase significantly as numerous power projects are built in the region.

Our current estimate of the cost of delay is \$625,000/month. The estimate is based on typical inflation rates for major equipment and construction work. It does not reflect the recent, steep increases in various commodity prices. When we have firm dates for the NTP and commercial operation dates, we will determine the actual cost associated with the delay. It could be significantly higher than our current estimate of \$625,000/month.

For planning purposes, we are currently assuming that our manufacturing schedule will need to support commercial operation dates for all five units between April and December of 2008. We have designated manufacturing slots in our production schedule to support those commercial operations dates. In order to maintain this schedule, we need an NTP on or before July 1, 2006. Until we have an NTP from EKPC, the slot assignments are subject to prior sale to other customers. Depending on when the NTP is received, the manufacturing schedule for EKPC's units could be pushed back significantly, incurring a further project delay and additional costs increases associated with that delay.

Tom, as you know, GE and EKPC have been working together to minimize the affects of the delay of the NTP. We will continue to do so to the best of our ability. However, nothing good, in terms of cost or project schedule can come from further delay.

Brian D. Rodgers
GE Energy
Off: 713-803-0954 DC: 354-0954
Fax: 713-803-0347
Cell: 281-389-9354
Email: brian.rodgers@ge.com
Mail Delivery: 1333 West Loop South
Suite 1000
Houston, TX 77027

Attachment 3

RECEIVED
JUN 26 2006
PUBLIC SERVICE
COMMISSION

SMITH STATION CTs 6-7
FINDING OF NO SIGNIFICANT IMPACT
NOVEMBER 24, 2003

**RURAL UTILITIES SERVICE
FINDING OF NO SIGNIFICANT IMPACT**

related to

EAST KENTUCKY POWER COOPERATIVE

regarding the

**SMITH ELECTRIC GENERATING FACILITY
ADDITION OF UNITS 6 AND 7**

CLARK COUNTY, KENTUCKY

Prepared by:

**ENGINEERING AND ENVIRONMENTAL STAFF
RURAL UTILITIES SERVICE**

November 2003

RECEIVED DEC 01 2003

East Kentucky Power Cooperative has requested financing assistance from the Rural Utilities Service (RUS) to finance the construction of two additional gas-fired combustion turbine units at its Smith Electric Generating Facility. The two new units will be the 6th and 7th at the generating facility which is located in Clark County, Kentucky, approximately 9 miles southeast of Winchester on Kentucky Highway 89.

The project consists of the construction and operation of two, 80 megawatt, simple cycle, combustion turbines. There are currently three 110 megawatt and two 80 megawatt simple cycle, combustion turbines located at the site. The new combustion turbines are to be General Electric Frame 7EA units to be operated for peaking capacity needs. They will be fired by natural gas or #2 fuel oil. Natural gas will be supplied by an existing natural gas pipeline on site. There is adequate natural gas transmission facilities at the site to power the additional units. Fuel oil will be trucked to the site and stored in a 4 million gallon storage tank located on the site. A short span of 138 kV transmission line electric transmission line will need to be constructed as part of the project to feed the electric power generated by the by the new units to East Kentucky Power Cooperative's existing transmission grid. The span of transmission line will be entirely within the fenced boundary of the Smith Electric Generating Facility.

RUS considered the alternatives of no action, power purchases from other entities, and demand side management. Under the no action alternative, RUS would not provide financing for the project. RUS believes that the project, as proposed herein, is justified and meets East Kentucky Power Cooperative's need for additional generation supply resources.

East Kentucky Power Cooperative submitted an environmental report to RUS which addresses the potential environmental impact of the project. RUS conducted an independent evaluation of the environmental report and concurs with its scope and content. In accordance with RUS' Environmental Policies and Procedures at 7 CFR 1794.53, RUS has accepted East Kentucky Power Cooperative's environmental report as its environmental assessment of the proposed project.

The availability of the environmental assessment for public review was announced in *The Winchester Sun* on October 9, 2003. The environmental assessment was available for public review at the Clark County Public Library located in Winchester, Kentucky, at headquarters of East Kentucky Power Cooperative, and the headquarters of RUS. During the 30-day comment period no comments or questions were submitted to RUS regarding the environmental assessment.

Based on the environmental assessment, RUS has concluded that the construction and operation of Units 6 and 7 would have no significant impact to water quality, air quality, aesthetics, ambient noise levels, or land use. The project would have no impact to wetlands, the 100-year floodplain, important farmland, cultural resources, or federally listed threatened or endangered species. The proposed project will not have a disproportionate adverse environmental or human health impact to low-income or minority populations.

No other potential significant impacts resulting from the project have been identified. Therefore, RUS has determined that this finding of no significant impact fulfills its obligations under the National Environmental Policy Act, the Council on Environmental Quality Regulations (40 CFR §§ 1500-1508), and RUS' Environmental Policies and Procedures (7 CFR Part 1794) for its action related to the project.

RUS is satisfied that the environmental impacts of the proposed project have been adequately addressed and, therefore, finds no reason why East Kentucky Power Cooperative's request for RUS assistance to finance the cost of the project should not be considered.

Since RUS' Federal action would not result in significant impacts to the quality of the human environment, it will not prepare an environmental impact statement for its action related to the project.

Approved by: Blaine D. Stockton 11/24/03
Blaine D. Stockton Date
Assistant Administrator-Electric
Electric Program
Rural Utilities Service



EAST KENTUCKY POWER COOPERATIVE

4775 Lexington Road 40391
P.O. Box 707,
Winchester, Kentucky
40392-0707

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JUN 2 6 2006
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First Class Mail



RICHARD RAFF ESQ
PUBLIC SERVICE COMMISSION
P O BOX 615
FRANKFORT KY 40602

A Touchstone Energy® Cooperative

