EAST KENTUCKY POWER COOPERATIVE

February 23, 2007

HAND DELIVERED

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

RECEIVED
FEB 23 2007
PUBLIC SERVICE COMMISSION

Re: PSC Case No. 2006-00508

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced case an original and five copies of the responses of East Kentucky Power Cooperative, Inc., to the Commission Staff's Interrogatories and Requests for Production of Documents dated February 8, 2007.

Very truly yours,

Charles A. Lile

Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Parties of Record

RECEIVED

FEB 23 2007

PUBLIC SERVICE
COMMISSION

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

| | |
|---|---|
| **AN EXAMINATION OF THE APPLICATION OF** | **)** |
| **THE FUEL ADJUSTMENT CLAUSE OF EAST** | **)** |
| **KENTUCKY POWER COOPERATIVE, INC. FROM** | **) CASE NO. 2006-00508** |
| **NOVEMBER 1, 2004 TO OCTOBER 31, 2006** | **)** |

**RESPONSES TO COMMISSION STAFF'S INTERROGATORIES**
**AND REQUESTS FOR PRODUCTION OF DOCUMENTS**
**TO EAST KENTUCKY POWER COOPERATIVE, INC.**
**DATED FEBRUARY 8, 2007**

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2006-00508**

**FUEL ADJUSTMENT CLAUSE**

**COMMISSION STAFF'S INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS DATED 2/8/07**

East Kentucky Power Cooperative, Inc. (EKPC) hereby submits responses to the Commission Staff's Interrogatories and Requests for Production of Documents dated February 8, 2007. Each response with its associated supportive reference materials is individually tabbed.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2006-00508**
**FUEL ADJUSTMENT CLAUSE**
**RESPONSE TO INTERROGATORIES AND REQUESTS**
**FOR PRODUCTION OF DOCUMENTS**

**COMMISSION STAFF'S INTERROGATORIES AND REQUESTS DATED 2/8/07**
**REQUEST 1**
**RESPONSIBLE PERSON:** **Gerard B. Bordes**
**COMPANY:** **East Kentucky Power Cooperative, Inc.**

**REQUEST 1.** Refer to East Kentucky's December 2005 and January 2006 Analysis of Coal Purchases filed with its monthly fuel adjustment charge backup reports. For Spurlock Unit 2, purchases from MC Mining were made at a cost of $74.98 per ton in December 2005 and $65.00 per ton in January 2006. Explain why coal purchased under a long-term contract would experience such a variance in price from one month to the next.

**RESPONSE 1.** Typically, long-term contract pricing does not vary by large amounts between months as the escalation is typically tied to inflationary indices and/or fuel escalation. The MC Mining contract deliveries in question had fixed pricing included in the contract when it was signed. Also, since the market for coal was very tight at the time of signing the contract and, therefore, very high pricing, East Kentucky was able to negotiate fixed pricing that decreased over the term of the contract. The contract pricing, excluding transportation, for MC Mining was $2.52/MMBtu or $63.00/ton in 2005, $2.20/MMBtu or $55.00/ton in 2006, and $2.08/MMBtu or $52.00/ton in 2007. This fixed lowering of price is not typical; however, the fast increase and high level of pricing that was seen during this time was also not normal.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

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**COMMISSION STAFF'S INTERROGATORIES AND REQUESTS DATED 2/8/07**
**REQUEST 2**
**RESPONSIBLE PERSON:** **Gerard B. Bordes**
**COMPANY:** **East Kentucky Power Cooperative, Inc.**

**REQUEST 2.** Refer to East Kentucky Fuel Department's purchase order no. 51245 to Calla Synfuel, LLC, dated October 27, 2006. "As Received" sulfur content is limited to a percentage no higher than computed by the formula:

$$\text{Percent Sulfur} = \frac{1.2 \text{ X Btu/lb.}}{20{,}000}$$

Explain what the values 1.2 and 20,000 represent and how each value was derived.

**RESPONSE 2.** The 1.2 in the formula is 1.2 pounds of sulfur dioxide ($SO_2$) per million Btu (MMBtu). This is the emission limit for sulfur at Spurlock Power Station contained in its Title V Air Operating Permit issued by the State of Kentucky. The formula is a calculation to change pounds of sulfur dioxide to a sulfur percentage. The denominator of 20,000 is a number derived by reducing the original formula. The original formula was 1.2 X (Btu/lb. X 2,000 lbs./ton ÷ 1,000,000 Btu) ÷ 40 lbs. sulfur dioxide per 1% sulfur.

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**COMMISSION STAFF'S INTERROGATORIES AND REQUESTS DATED 2/8/07**
**REQUEST 3**
**RESPONSIBLE PERSON: Ann F. Wood**
**COMPANY: East Kentucky Power Cooperative, Inc.**

**REQUEST 3.** Refer to East Kentucky's responses to Items 7 and 8 of the Commission's December 18, 2006 Order. Explain whether the power purchases and sales attributed to Louisville Gas and Electric Company ("LG&E") are actually purchases and sales to and from both Kentucky Utilities Company ("KU") and LG&E. If the responses for Items 7 and 8 can be separated between KU and LG&E, provide a revised response for each item.

**RESPONSE 3.** With respect to East Kentucky's responses to Items 7 and 8 of the Commission's December 18, 2006 Order, the power purchases and sales are attributed solely to LG&E.

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**COMMISSION STAFF'S INTERROGATORIES AND REQUESTS DATED 2/8/07**
**REQUEST 4**
**RESPONSIBLE PERSON:** **Julia J. Tucker/Gerard B. Bordes**
**COMPANY:** **East Kentucky Power Cooperative, Inc.**

**REQUEST 4.** Refer to East Kentucky's response to Item 9 of the Commission's December 18, 2006 Order. Explain why Cumberland (SEPA) is identified under "Generation Capability," but is not included under the "Maintenance/Derates" section. Include a narrative of the expected effect, if any, of the lowering of the lake level at Cumberland Lake upon East Kentucky's SEPA power purchases.

**RESPONSE 4.** Cumberland (SEPA) is identified under "Generation Capability" due to the fact that it is part of East Kentucky Power's Capacity Portfolio. It is not included under the "Maintenance/Derates" section due to the fact that this power is scheduled into the East Kentucky Power system and is available any hour of any day of the year.

East Kentucky Power expects the lowering of the lake level at Cumberland Lake to lessen the amount of power available due to reduced storage. SEPA does not expect to be able to guarantee its supply of 100 MW for 1,500 peak hours while the lake level is lowered. The SEPA Preference Customers, including EKPC, are working jointly to utilize what

SEPA power is available in a fair and equitable manner. The current mode of operation is to have a joint conference call weekly and discuss scheduling options for the upcoming week. SEPA is working to develop an automatic pro-rata share basis for its scheduling operations. EKPC is carrying adequate reserves going into the summer peak so that if the SEPA power is not available during peak periods native load can still be served reliably. The cost for the 100 MW of replacement power would be higher than the SEPA power costs. If the power is not available going into next year's winter peak season, then EKPC will have to plan to purchase off-system replacement power because reserves are not adequate to cover the loss during winter peak periods.

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**COMMISSION STAFF'S INTERROGATORIES AND REQUESTS DATED 2/8/07**
**REQUEST 5**
**RESPONSIBLE PERSON: Gerard B. Bordes**
**COMPANY: East Kentucky Power Cooperative, Inc.**

**REQUEST 5.** Refer to page 6 of East Kentucky's response to Item 15 of the Commission's December 18, 2006 Order. Only 63 percent of the 2006 annual tonnage requirements under the Keystone Industries, LLC ("Keystone") contract were received. Explain whether the shortfall is expected to be made up by Keystone.

**RESPONSE 5.** East Kentucky has had many discussions with the management of Keystone, and East Kentucky expects the deficiencies in tonnage of approximately 25,000 tons to be delivered by early spring 2007.

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**COMMISSION STAFF'S INTERROGATORIES AND REQUESTS DATED 2/8/07**
**REQUEST 6**
**RESPONSIBLE PERSON:** **Gerard B. Bordes**
**COMPANY:** **East Kentucky Power Cooperative, Inc.**

**REQUEST 6.** Refer to East Kentucky's response to page 2 of Item 25 of the Commission's December 18, 2006 Order. On April 4, 2006, an oral solicitation was made for 95,000 tons of coal for the Cooper Station. Explain what conditions existed at Cooper that required an immediate response through an oral solicitation for a relatively large amount of coal.

**RESPONSE 6.** Prior to the April 4, 2006, oral solicitation date, East Kentucky had two other coal suppliers that were having production problems and were approximately 95,000 tons behind on their coal deliveries combined. During this period, East Kentucky was constantly discussing with different suppliers the possibility of replacing this coal. As soon as a potential agreement for a portion of these deliveries was reached with a supplier that was less than the existing price, East Kentucky solicited the market to ensure there were not any better offers to be found. The solicitation was performed orally in order to ensure a quick response so that East Kentucky did not lose the existing offer. Based on these purchases, East Kentucky cancelled one order and partial tonnage on the other order and saved approximately $1.66/ton or $157,700 over the entire tonnage.