EAST KENTUCKY POWER COOPERATIVE

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PUBLIC SERVICE
COMMISSION

2008-00436

October 9, 2008

HAND DELIVERED

Ms. Stephanie L. Stumbo
Executive Director
Public Service Commission
Post Office Box 615
211 Sower Boulevard
Frankfort, KY 40602

Dear Ms. Stumbo:

Please find enclosed for filing with the Commission, an original and ten copies of the Application of East Kentucky Power Cooperative, Inc., for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages.

Very truly yours,

Charles A. Lile
Corporate Counsel

Enclosures

Cc: Dennis G. Howard II, Esq.

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

Tel. (859) 744-4812
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OCT 09 2008

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH A REGULATORY ASSET RELATED TO CERTAIN REPLACEMENT POWER COSTS RESULTING FROM GENERATION FORCED OUTAGES	)	**CASE NO. 2008-** 00436

APPLICATION

Applicant, East Kentucky Power Cooperative, Inc. ("EKPC") hereby requests that the Kentucky Public Service Commission (the "Commission") issue an Order permitting EKPC to establish a regulatory asset representing certain costs of replacement power, relating to EKPC generating unit forced outages during 2008, which do not qualify for recovery through the Fuel Adjustment Clause (807 KAR 5:056). In support thereof, Applicant states as follows:

1. Applicant is a generation and transmission electric cooperative, providing wholesale electric power and energy to sixteen (16) member distribution cooperatives in Kentucky, and its address is Post Office Box 707, 4775 Lexington Road, Winchester, Kentucky 40392-0707.

2. This Application is made pursuant to KRS 278.030, KRS 278.040 and KRS 278.220 and related statutes.

3. A copy of Applicant's restated Articles of Incorporation and all amendments thereto were filed with the Public Service Commission (the "Commission") in PSC Case No. 90-197, the

Application of EKPC for a Certificate of Public Convenience and Necessity to Construct Certain Steam Service Facilities in Mason County, Kentucky.

4. EKPC is seeking the approval of accounting practices for the establishment of a regulatory asset relating to costs of replacement power and energy purchases, and fuel costs of replacement generation, resulting from forced outages at each of EKPC's generating plants during 2008. EKPC seeks such treatment for all such 2008 costs which are not recoverable through the Fuel Adjustment Clause ("FAC"), to the extent that they do not result from "Acts of God, riot, insurrection, or acts of the public enemy,"[1] which are the only circumstances recognized in the Commission's FAC regulations, under which such replacement power costs which exceed the fuel costs of the unit experiencing a forced outage may be subject to recovery.

5. The characteristics of East Kentucky Power Cooperative's financial structure consist of minimal equity, high debt leverage, and a reliance on the all-requirements wholesale power contracts with its member system owners for its revenue. Given such characteristics, EKPC has no shareholders to absorb these forced outage costs, and any such costs which are not recovered in rates will adversely affect net margins and member system equity. EKPC seeks authority to create a regulatory asset in regard to these otherwise unrecoverable replacement power costs in accordance with the Commission's rate-making authority and Statement of Financial Accounting Standards No. 71. EKPC asserts that, due to the reasons stated in this application, these replacement power costs should be considered normal, reasonable, and allowable costs for rate recovery purposes for an electric utility organized as a cooperative. The immediacy of this need is emphasized, due to the concern that the high level of such expenses during calendar year 2008 could jeopardize EKPC's ability to earn net margins sufficient to meet its loan covenants under

its Rural Utilities Service ("RUS") and National Rural Utilities Cooperative Finance Corporation ("CFC") Mortgage, and/or its private Credit Facility financing.

6. EKPC states that the forced outages, to which the subject replacement power costs relate, were not the result of a lack of unit maintenance, failure to follow prudent utility operating practices, known defects in facilities or equipment, or any other events or conditions over which EKPC had reasonable control, or could have avoided or minimized by any prudent preventive actions. EKPC further states that its responses to the subject forced outages were prompt and reasonable, and the affected units were returned to operational status in as timely a manner as possible under the circumstances.

7. EKPC states that it used reasonable and prudent processes for the dispatch of replacement generating units, or the purchase of replacement power and energy, in response to the subject forced outages. These steps resulted in the lowest reasonable costs of replacement power and energy, consistent with EKPC practices for minimizing the cost of power production to its member systems.

8. As part of its rate-making authority, the Commission is authorized to "establish a system of accounts to be kept by utilities subject to its jurisdiction … and may prescribe the manner in which accounts shall be kept."[2]

9. The Commission has interpreted KRS 278.220 to require utilities to obtain Commission approval for accounting adjustments before establishing any expense as a new regulatory asset.[3]

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[1] 807 KAR 5:056 Section 1 (4)

[2] KRS 278.220.

10. EKPC proposes that the subject replacement power and energy costs incurred to date, and any additional non-FAC-recoverable replacement power and energy costs incurred due to similar forced outages during the remainder of calendar year 2008, be treated as regulatory assets, to be amortized over three years.

11. The subject replacement power and energy costs are reasonable expenses of providing utility service, for which EKPC plans to seek recovery in a future base rate case.

12. Attached to this Application, as EKPC Application Exhibit 1, is the Prepared Testimony of Ann F. Wood, EKPC Manager of Regulatory Services, dealing with the current EKPC financial circumstances, the subject replacement power and energy costs, and the proposed accounting treatment for those costs.

13. Attached to this Application, as EKPC Application Exhibit 2, is the Prepared Testimony of Craig Johnson, EKPC Vice-President of Production, dealing with the circumstances of the subject forced outages, EKPC's response to those forced outages, EKPC's programs and procedures for generating unit inspection, overhaul and maintenance, and its historical forced outage rates.

14. Due to EKPC's need to address its potential shortfall in net margins before the end of the calendar year 2008, EKPC requests expedited review of this Application, and commits to providing any necessary additional information on any appropriate procedural schedule established to support that timeline for this case.

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[3] Order, *In the Matter of the Adjustment of Rates of The Union, Light, Heat and Power Company*, Case No. 2001-00092 at 14 (January 31, 2002).

WHEREFORE, the Applicant, East Kentucky Power Cooperative, Inc., requests that the Commission issue an order granting the requested approval for accounting practices to establish a regulatory asset relating to the subject replacement power and energy costs relating to 2008 forced outages.

Respectfully submitted,

DAVID A. SMART

CHARLES A. LILE

ATTORNEYS FOR APPLICANT
EAST KENTUCKY POWER COOPERATIVE, INC.
P.O. BOX 707
WINCHESTER, KY 40392-0707

(859) 744-4812

CERTIFICATE OF SERVICE

This is to certify that an original and 10 copies of the foregoing Application were delivered to the office of Stephanie L. Stumbo, Executive Director of the Public Service Commission, 211 Sower Boulevard, Frankfort, KY 40601, and copies were mailed to Dennis G. Howard II, Esq., Assistant Attorney General, Office of Rate Intervention, P.O. Box 2000, Frankfort, Kentucky 40602-2000, this 9th day of October, 2008.

Charles A. Lile

Exhibit 1

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH A REGULATORY ASSET RELATED TO CERTAIN REPLACEMENT POWER COSTS RESULTING FROM GENERATION FORCED OUTAGES	)	**CASE NO. 2008-**

DIRECT TESTIMONY OF ANN F. WOOD
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Q. Please state your name, business address and occupation.

A. My name is Ann F. Wood, East Kentucky Power Cooperative ("EKPC"), 4775 Lexington Road, Winchester, Kentucky 40391. I am the Manager of Regulatory Services for EKPC.

Q. Please state your education and professional experience.

A. I received a B.S. Degree in Accounting from Georgetown College in 1987. After graduation I accepted an audit position with Coopers & Lybrand in the Lexington office. My responsibilities ranged from performing detailed audit testing to managing audits. In October 1995, I started working for Lexmark International, Inc. as an analyst. In May 1997, I joined EKPC and held various management positions in the accounting and internal auditing areas. In August 2008, I became Manager of Regulatory Services at EKPC. I am a certified public accountant in Kentucky.

Q. Please provide a brief description of your duties at EKPC.

A. As Manager of Regulatory Services, I am responsible for managing all filings with the Public Service Commission ("Commission.") I report directly to the Senior Vice President of Power Supply.

Q. Are you sponsoring any exhibits?

A. Yes, I am sponsoring two exhibits. Exhibit AFW-1 details the 2008 forced outages on EKPC's coal-fired generating units and the associated unrecovered replacement power costs. Exhibit AFW-2 reflects EKPC's projected 2008 net margins and debt covenant calculations.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide details of the 2008 forced outage costs, to discuss EKPC's overall financial position, and to describe the proposed accounting treatment for establishing a regulatory asset.

Q. What is the total amount of unrecovered forced outage-related replacement power costs incurred in 2008?

A. From January 2008 to August 2008, EKPC has incurred $11.9 million in unrecovered forced outage replacement power costs. Exhibit AFW-1 details the 2008 forced outages incurred. EKPC seeks to record these, as well as any future 2008 forced outage costs, as a regulatory asset.

Q. Are EKPC's 2008 forced outage replacement power costs unusually high?

A. No. As indicated in Mr. Johnson's testimony, EKPC's coal-fired generating unit performance is at or better than the industry average. In 2008, although coal prices are rising, market conditions have not been out of the ordinary. EKPC expects to have at least this level of replacement power costs due to its reliance on the purchased power markets.

Q. Why is EKPC asking for the accounting treatment to establish a regulatory asset for these forced outage replacement power costs?

A. Based on the current fuel adjustment clause ("FAC") regulation, recovery of forced outage replacement power costs is limited to the fuel costs associated with the lost generating unit, unless the outage was the result of "Acts of God, riot, insurrection, or acts of the public enemy" (807 KAR 5:056 Section 1 (12)). When that limitation in the FAC regulation was originally placed into effect, there were virtually no power markets. During the 1980's, EKPC had excess capacity. If a forced outage occurred at that time, EKPC would cease making off-system sales, thus freeing up capacity for its members' needs. During the early 1990's, EKPC did not have as much excess capacity, but, in the event of a forced outage, EKPC could generally buy power from an interconnected utility at cost plus 10 percent. Since 2000, EKPC has been relying more heavily on the purchased power market due to the shortage of installed capacity. Consequently, any forced outage is very expensive, and an extended forced outage can be financially devastating. Using July 2008 as an example, EKPC's average purchased power costs were \$93.68/MWh and EKPC's average cost of natural gas generation was \$154.53/MWh, while its average fuel cost for its coal-fired generating units was only \$25.81/MWh.

Based on the 2008 forced outages and their impact on EKPC's financial position, EKPC concluded that establishing a regulatory asset for these unrecovered forced outage fuel costs was a reasonable and necessary step.

Q. Did EKPC utilize reasonable processes in purchasing replacement power for the 2008 forced outages?

A. Yes. EKPC performs a detailed analysis to determine the most economic means of replacing power. EKPC determines if the generation can be replaced from our other generating units. If not, EKPC requests assistance from the Contingency Reserve Sharing Group, a group of control areas that share reserves in order to comply with NERC disturbance control standards and NERC control performance standards, until such time EKPC can replace the power through either self-generation or purchased power. EKPC reviews the projected costs for the hourly and, if appropriate, the day-ahead purchased power markets, compares these costs to EKPC's generation, and makes the decision based on the most economic option. If an outage extends longer than two days, EKPC reviews the week-ahead and month-ahead purchased power markets, as appropriate, compares these costs to EKPC's generation, and makes the decision based on the most economic option.

Q. Has the Commission allowed recovery of forced outage replacement power costs in any recent rate proceedings?

A. Yes. In the Order dated December 5, 2007, in PSC Case No. 2006-00472, the Commission found it reasonable to provide for EKPC's recovery of the 2004

Spurlock 1 forced outage replacement power costs through base rates. The Commission allowed a 3-year amortization period for that recovery.

Q. The Commission granted EKPC a Times Interest Earned Ratio ("TIER") level of 1.35 in PSC Case No. 2006-00472. Is EKPC currently achieving this TIER level?

A. No. EKPC's TIER level for the 8-month period ending August 31, 2008 is 1.12. This is significantly below the TIER level that the Commission approved in Case No. 2006-00472, and in Case No. 2008-00115, involving the amendment of EKPC's environmental surcharge.

Q. Is EKPC achieving its Debt Service Coverage Ratio ("DSC") under its Credit Facility Agreement?

A. No. For the 8-month period ending August 31, 2008, EKPC's DSC is .95. Under both the Credit Facility Agreement, which was described in detail in PSC Case No. 2006-00472, and the Rural Utilities Service ("RUS") Mortgage, EKPC must attain an average DSC of at least 1.0 for the highest two of the three most recent years. The DSC requirement has become more difficult to achieve as a result of the lowering of the depreciation rates, based on EKPC's 2005 depreciation study, and increasing principal and interest payments.

Q. What level of net margins is EKPC projecting for 2008?

A. Exhibit AFW-2, page 1 of 2, reflects the projected net margin for 2008. This net margin projection was determined by adding the September 2008 through December 2008 budgeted net margin, as adjusted, to year-to-date August 2008 actual results.

Q. Is this level of net margins adequate for meeting its debt covenant requirements?

A. No. As indicated on Exhibit AFW-2, page 2 of 2, at that projected level of net margins, EKPC will fail its DSC covenant requirement under its Credit Facility agreement. In order to meet the DSC requirements under the Credit Facility agreement, EKPC will need to earn a net margin of at least $22 million for 2008.

Q. What are the possible consequences to EKPC for failing to meet its debt covenant requirements?

A. If EKPC does not meet the debt covenants, the parties in the Credit Facility can place EKPC in default and refuse to advance additional funds. They may also call the amount outstanding. If called, the loan balance would be due and payable immediately, and EKPC does not have available funds to make such a payment. EKPC could seek a waiver from the lenders; however, the cost of obtaining a waiver is approximately $1.5-$2 million. Additionally, failing to meet the debt covenant requirements, and the repeated need to request waivers, can adversely impact the availability of future private financing, which is increasingly important to EKPC as the availability of RUS funding becomes more uncertain, and EKPC is seeking to extend and increase its current Credit Facility.

Q. If the Commission approves the establishment of a regulatory asset for the forced outage replacement power costs incurred so far in 2008, will EKPC's TIER level exceed the 1.35 approved in Case No. 2006-00472?

A. No. Based on EKPC's projections, if the Commission approves the $11.9 million in unrecovered forced outage replacement power costs through August 2008, EKPC would only achieve a 1.24 TIER.

Q. How would this regulatory asset be accounted for?

A. EKPC would adopt the provisions of Statement of Financial Accounting Standards No. 71 (SFAS 71). In accordance with SFAS 71 and the RUS Uniform System of Accounts, EKPC will record (debit) the regulatory asset in account 182.3, Other Regulatory Assets. The corresponding credits will be to fuel and/or purchased power expense.

Q. Is RUS approval needed to adopt the provisions of SFAS 71?

A. No. RUS approval is not needed.

Q. Over what period does EKPC propose to amortize the regulatory asset?

A. EKPC proposes to amortize the regulatory asset over a 3-year period. This is consistent with the Order dated December 5, 2007 in Case No. 2006-00472.

Q. Does EKPC plan to consider the amortization of the regulatory asset in its base rate application to be filed later this year?

A. Subject to the Commission's approval of this application, EKPC plans to seek recovery of the regulatory asset in the course of the upcoming base rate case (PSC Case No. 2008-00409).

Q. Does that conclude your testimony?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH A REGULATORY ASSET RELATED TO CERTAIN REPLACEMENT POWER COSTS RESULTING FROM GENERATION FORCED OUTAGES	)))))))	**CASE NO. 2008-**

AFFIDAVIT

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Ann F. Wood, being duly sworn, states that she has read the foregoing prepared testimony and that she would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of her knowledge, information and belief.

Ann F. Wood
Ann F. Wood

Subscribed and sworn before me on this 8th day of October, 2008.

Peggy S. Griffin
Notary Public

My Commission expires: December 8, 2009

EAST KENTUCKY POWER COOPERATIVE, INC.
2008 FORCED OUTAGE DETAIL

Plant	Unit	Dates of Outage	Duration of Outage	MWH Lost	Cause of Outage	Cost of Power Lost	Cost of Replacement Power	Net Unrecovered
Spurlock	Gilbert	3/13/08-3/14/08	31 Hrs 50 Mins	4,555	Feed Pump Vibration	$ 75,071	$ 305,059	$ (229,988)
		6/24/08-6/30/08	145 Hrs 23 Mins	38,719	Heat Exchange Leak	783,481	2,800,320	(2,016,839)
		7/1/08-7/10/08	227 Hrs 43 Mins	60,646	Heat Exchange Leak	1,274,092	4,205,375	(2,931,283)
								(5,178,110)
Spurlock	2	3/4/08-3/7/08	75 Hrs 51 Mins	32,112	Tube Leak	849,243	2,584,250	(1,735,007)
	2	3/13/08-3/14/08	12 Hrs 32 Mins	4,041	Loss of T-12	106,869	267,066	(160,197)
	2	6/7/08-6/8/08	11 Hrs 3 Mins	4,988	Electrical Problem	134,659	422,029	(287,370)
	1	7/1/08-7/1/08	7 Hrs 23 Mins	2,045	Tripped on low instrument air	48,446	160,481	(112,035)
	1	7/9/08-7/12/08	80 Hrs 58 Mins	22,548	Tube Leak	534,162	2,050,252	(1,516,090)
								(3,810,699)
Cooper	1	1/23/08-1/25/08	69 Hrs 30 Mins	7,182	Tube Leak	161,545	629,864	(468,319)
	2	1/29/08-1/29/08	7 Hrs 12 Mins	1,444	EX200 Problem	32,310	96,435	(64,125)
	2	4/1/08-4/1/08	11 Hrs 45 Mins	887	Loss of unit elect svc	21,132	82,967	(61,835)
	2	4/5/08-4/5/08	8 Hrs 56 Mins	1,535	Bad card in Bailey System	36,570	87,233	(50,663)
	2	5/15/08-5/15/08	17 Hrs 28 Mins	3,528	Repair EX2000	86,746	210,087	(123,341)
	2	6/7/08-6/7/08	9 Hrs 5 Mins	1,789	Computers,etc,shut down	49,784	255,120	(205,336)
	2	6/9/08-6/11/08	31 Hrs 19 Mins	5,401	Condenser	150,300	390,230	(239,930)
	2	6/13/08-6/15/08	49 Hrs 34 Mins	9,761	Condenser	271,631	725,675	(454,044)
								(1,667,593)
Dale	4	1/8/08-1/11/08	58 Hrs 26 Mins	3,152	Repair Feed Water Heater	92,334	173,989	(81,655)
	4	1/16/08-1/18/08	37 Hrs 55 Mins	2,171	Tube Leak	63,597	148,316	(84,719)
	1	2/9/08-2/11/08	35 Hrs 5 Mins	592	Tube Leak	17,702	42,585	(24,883)
	2	2/3/08-2/4/08	26 Hrs 51 Mins	538	Tube Leak	16,138	32,033	(15,895)
	2	2/11/08-2/12/08	32 Hrs 41 Mins	361	Tube Leak	10,828	31,696	(20,868)
	1	3/10/08-3/12/08	48 Hrs 30 Mins	927	Tube Leak	27,535	83,883	(56,348)
	4	3/14/08-3/16/08	46 Hrs 36 Mins	2,760	Tube Leak	78,228	176,334	(98,106)

Plant	Unit	Dates of Outage	Duration of Outage	MWH Lost	Cause of Outage	Cost of Power Lost	Cost of Replacement Power	Net Unrecovered
	4	3/16/08-3/19/08	59 Hrs 9 Mins	2,648	Tube Leak	75,054	215,176	(140,122)
	3	4/29/08-4/30/08	28 Hrs 15 Mins	1,564	Tube Leak	46,320	148,106	(101,786)
	2	5/4/08-5/6/08	29 Hrs 24 Mins	579	Tube Leak	19,485	49,117	(29,632)
	2	5/21/08-5/23/08	57 Hrs 10 Mins	1,102	Tube Leak	37,085	80,520	(43,435)
	4	5/1/08-5/1/08	22 Hrs 20 Mins	1,225	Tube Leak	37,541	84,935	(47,394)
	4	5/5/08-5/6/08	30 Hrs 33 Mins	1,384	Tube Leak	42,414	114,648	(72,234)
	4	5/11/08-5/13/08	38 Hrs 32 Mins	1,763	Tube Leak	54,029	138,953	(84,924)
	1	6/23/08-6/25/08	37 Hrs 30 Mins	588	Tube Leak	19,889	38,197	(18,308)
	2	6/8/08-6/10/08	46 Hrs 51 Mins	786	Tube Leak	26,354	92,882	(66,528)
	2	7/15/08-7/16/08	25 Hrs 58 Mins	423	Tube Leak	14,556	32,462	(17,906)
	3	7/18/08-7/20/08	32 Hrs 51 Mins	1,572	Tube Leak	48,361	107,351	(58,990)
	4	7/27/08-7/29/08	40 Hrs 20 Mins	1,617	Tube Leak	51,364	119,819	(68,455)
	1	8/1/08-8/2/08	28 Hrs 19 Mins	445	Tube Leak	16,749	37,319	(20,570)
	3	8/28/08-8/28/08	7 Hrs 49 Mins	320	Tube Leak	10,291	25,356	(15,065)
	4	8/25/08-8/27/08	32 Hrs 19 Mins	1,408	Tube Leak	47,265	87,151	(39,886)
								(1,207,709)
					Total 2008 Unrecovered Forced Outage Fuel Costs			$ (11,864,111)

**EAST KENTUCKY POWER COOPERATIVE, INC.
PROJECTED NET MARGIN SCHEDULE--2008**

2008 Year-to-Date Net Margin Through August 31, 2008	$	8,432,289
Projected Net Margin September--December 2008		8,420,726
Projected 2008 Net Margin	$	16,853,015

East Kentucky Power Cooperative, Inc.
Projected TIER & DSC Calculations for year 2008

For 2008: Mortgage Agreement and Credit Agreement

TIER

						Average of Best 2 of 3	
(a) Net Margins	16,853,000				Mortgage Agreement		
(b) Interest on Long Term Debt	110,426,000				Credit Agreement	1.280	✓
TIER = (a) + (b) / (b) =	127,279,000	/	110,426,000	=	**1.153**	1.142	✓

DSC

(a) Depreciation	44,155,277	Mortgage Agreement		
(b) Interest on L-T Debt	110,426,000			
(c) Margins	16,853,000	Credit Agreement		
(d) Interest + Principal	172,433,000		1.073	✓
DSC = (a) + (b) + (c) / (d) =	**0.994**		0.986	

Exhibit 2

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH A REGULATORY ASSET RELATED TO CERTAIN REPLACEMENT POWER COSTS RESULTING FROM GENERATION FORCED OUTAGES	)))))))	**CASE NO. 2008-**

DIRECT TESTIMONY OF CRAIG A. JOHNSON, PE
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Q. Please state your name, business address and occupation.

A. My name is Craig Johnson, East Kentucky Power Cooperative, Inc., 4775 Lexington Road, Winchester, Kentucky 40391. I am the Vice President of Production in the Generation and Transmission Operations Division of East Kentucky Power Cooperative, Inc.

Q. Please state your education and professional experience.

A. I received a Bachelor's degree in Engineering from West Virginia Institute of Technology and a Master's of Science degree in Engineering from the University of Kentucky. I am a licensed professional engineer in the Commonwealth of Kentucky. I have been employed by EKPC since September 1989 and have occupied my current position within the EKPC organization since May 2007.

Q. Please provide a brief description of your duties at EKPC.

A. I am responsible for all operational and maintenance functions at EKPC's three coal fired power plants, combustion turbine plant, and landfill gas operations.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the circumstances surrounding the Gilbert coal-fired generating unit forced outage that EKPC experienced in 2008, and to explain the steps EKPC has taken to address that outage. I will describe EKPC's coal fired generating unit maintenance activities. Also, I will compare EKPC's forced outage rate ("FOR") for its coal- fired units to the national historic averages and explain why a forced outage of the Gilbert Unit boiler, which utilizes Circulating Fluidized Bed (CFB) technology, is typically longer than for a pulverized coal boiler.

Q. Please provide a brief review of the forced outages experienced at EKPC coal-fired generating units, so far in 2008.

A. Exhibit AFW-1 in Ms. Wood's testimony provides details about the forced outages of EKPC's coal –fired generating units in 2008. In general, the types of outages described in AFW-1 are typical of the outages for any utility with a mix of unit sizes and age that represent the EKPC generation fleet. The June 2008 outage of the Gilbert unit is described in more detail in this testimony.

Q. How do EKPC's historical forced outage rates for its coal-fired units compare to the national average for similar coal-fired generating units?

A. EKPC's coal-fired generating forced outage rate is typically lower than the national average. The latest information for national averages comes from the 2002 - 2006 Generating Availability Report (GADS) published in November of 2007. This report is published by the North American Electric Reliability Council (NERC) and is a compilation of operating histories from more than 230 utilities in the United States and Canada. A copy of that report is attached to this testimony as Exhibit CAJ-1. The following table compares each EKPC coal-fired unit to the national average for a coal-fired unit in its size class.

Unit	EKPC Average FOR 2002-2006	National Average FOR 2002-2006
Dale 1	2.1%	5.2%
Dale 2	1.6%	5.2%
Dale 3	2.0%	5.2%
Dale 4	1.7%	5.2%
Cooper 1	2.2%	4.5%
Cooper 2	2.1%	4.7%
Spurlock 1	0.3% (avg. yrs 02, 03, 05 & 06)	4.2%
Spurlock 2	1.7%	5.1%
Gilbert	13.2%	4.7%

Note that the average FOR for Spurlock 1 does not include 2004, when an unusually long forced outage, the circumstances of which were discussed in detail in PSC Case No. 2006-00472, contributed to a 32 % annual FOR. Also, note that the average FOR for the Gilbert Unit reflects less than two years of outage experience during its initial months of operation, since that unit went into commercial operation in March 2005. The generating data collected by NERC does not distinguish between the different types of coal boilers and groups Gilbert, a CFB, with pulverized coal units.

Q. What are EKPC's 2007 and 2008 YTD coal-fired generating unit forced outage rates?

A.

Unit	FOR 2007	FOR YTD 2008
Dale 1	4.5%	2.8%
Dale 2	2.6%	3.9%
Dale 3	5.6%	1.3%
Dale 4	4.9%	6.8%
Cooper 1	1.5%	1.3%
Cooper 2	1.6%	2.5%
Spurlock 1	0.07%	1.6%
Spurlock 2	1.4%	2.4%
Gilbert Unit	0.3%	7.1%

Q. How does a forced outage caused by a tube leak on a circulating fluidized bed ("CFB") boiler differ from a similar forced outage on a pulverized coal boiler?

A. When a major tube leak that causes an immediate trip of all systems occurs on a conventional pulverized coal unit, the standard procedure is to re-establish air flow in the boiler. Because there is no fuel left in the boiler after a trip of this nature, this action purges all of the gases and cools the inside of the boiler. This cool down process usually takes around 24 hours, after which personnel can then enter the boiler and repair the leak. After the repairs are made to a pulverized coal unit, it typically takes less than a day to bring the unit back on-line.

A major tube leak on a CFB boiler, like that on the Gilbert Unit, which results in a similar trip of all systems, causes the fluidized material in either the main boiler or fluid bed heat exchangers to accumulate, or slump in the bottom of the boiler.

This large mass of slumped material is extremely hot and contains non-combusted fuel and limestone. The recommended standard operating procedure from the manufacturer of the CFB is to let the remaining fuel burn itself out prior to re-establishing air flow with the fans. Re-establishing air flow too quickly will result in a re-ignition of the remaining fuel. This would result in severe overheating of the boiler tubes due to the lack of condensate (water) flowing through the tubes. A minimum of three days is required to cool the CFB to temperature levels that are safe for personnel to begin inspections of the tube damage and begin the repairs. After the temperature has reached a safe level, an additional day is required to vacuum out the slumped material from within the boiler and fluid bed heat exchangers. The amount of free lime in the slumped material, if mixed with the water from the tube leak, sets up like a low strength concrete. This material has to be carefully chipped out by hand and removed. Returning a CFB to service requires considerably more time than for a pulverized coal unit because the boiler has to be recharged with approximately 350 tons of bed ash. It then takes two to three days after fuel is introduced to bring the unit back to full operating capacity. Even if the tube repair time were equal in a pulverized coal boiler versus a CFB boiler, the cool down time, clean out time, and startup time are approximately five days longer with the CFB.

Q. What caused the forced outage in June and July of 2008 to the Gilbert Unit?

A. A tube leak located in the fluid bed heat exchanger ("FBHE") occurred on the Gilbert Unit in June 2008. This FBHE box is located external to the main furnace, and is a main component which controls the combustion temperature over a wide load range by taking a slip stream of ash from the combustion cycle, prior to it being reintroduced in the main boiler. The heat of the ash is transferred into a bank of tubes containing the finishing superheat. The operating pressure of the superheat elements is approximately 2,900 pounds per square inch, and the escaping superheated steam, mixed with the ash inside the box, typically causes collateral damage by cutting through any surrounding tubes.

The originating tube leak in the FBHE box occurred in a field weld that was installed during an outage of Gilbert in 2006. One hundred percent (100%) of the 2006 field welds within the FBHE were x-rayed for quality at that time. A metallurgical analysis of the failed weld performed by Alstom Power ("Alstom"), the equipment supplier of the CFB technology and the FBHEs, revealed that the root cause of the weld failure was due to overheating of the tube material at the time of weld placement. A third party retained by EKPC substantiated this metallurgical analysis. Conventional x-rays do not readily detect this overheating of the material.

Q. Is EKPC concerned that other tube welds are defective? If so, what steps has EKPC taken to mitigate the situation?

A. Yes, EKPC is concerned about all of the field welds in the two Gilbert FBHE boxes and also in the two FBHE boxes on Spurlock Unit 4, a sister unit to Gilbert which is currently under construction. The physical space limitations and tube spacing inside of the FBHE boxes make it extremely difficult to weld tubes. These welds are difficult to make in the field and are a challenge even for an experienced welder. EKPC is working with Alstom, which was responsible for the original installation of the defective field weld, and is currently under contract with EKPC for the installation of the Spurlock Unit 4 boiler and its components. Since the failure of the Gilbert tube, Alstom has initiated a new quality control technique utilizing shear wave technology. This technique is a non-destructive test and was successfully demonstrated in the laboratory on tube samples taken from the Gilbert FBHE box. Although there are no non-destructive tests that are 100% accurate in finding weld defects, the shear wave technique is the best non-destructive test known at this time. The field welds of the Spurlock Unit 4 FBHE boxes have since been tested using this new technique and found to be acceptable. EKPC has a planned maintenance outage of the Gilbert Unit scheduled for the fall of 2008 so that the same shear wave technique can evaluate the field welds in the Gilbert FBHE boxes. Any defective welds found will be repaired at that time.

Q. Has Alstom experienced similar weld problems with other clients?

A. No, according to Alstom representatives, there have not been such outages on other Alstom CFB units. This indicates that the weld failure was a field installation problem, and not a result of any design flaws.

Q. Do you believe that EKPC could have anticipated or prevented the Gilbert Unit forced outage?

A. No. EKPC prudently required 100% x-ray evaluation of the welds when they were installed in 2006. EKPC does not believe that routine examination of welds is typically part of normal generating unit maintenance, especially for a new unit such as Gilbert.

Q. Did EKPC take reasonable actions to return the Gilbert Unit to service as soon as possible?

A. Yes. EKPC personnel worked substantial amounts of overtime to return the Gilbert Unit to service as quickly as possible.

Q. Has EKPC learned anything else from the Gilbert Unit forced outage which may be useful in helping to minimize such outages in the future?

A. Yes. EKPC required the evaluation of all field welds in the Spurlock 4 unit using the shear wave technology, and will retest all similar welds in the Gilbert unit during its fall of 2008 maintenance outage.

Q. If the time from failure to repair for a CFB is longer than the repair time for a pulverized coal unit, why did EKPC select the CFB technology instead of pulverized coal technology for the Gilbert unit?

A. The CFB technology has several advantages for EKPC's rate payers compared to the pulverized coal technology. The environmental performance of a CFB unit is superior to that of a conventional pulverized coal unit. A CFB is capable of burning a wider range of fuels, including biomass, than a pulverized coal unit. Because of the environmental performance of a CFB, it is capable of utilizing less costly fuel than a pulverized coal unit. The CFB technology provides a lower bus bar cost to the consumer than a similar sized conventional pulverized coal unit.

Q. Have EKPC's cost containment initiatives negatively impacted its scheduled maintenance activities?

A. No, EKPC's cost containment initiatives have not impacted its scheduled maintenance activities. EKPC is currently enhancing its maintenance practices to ensure the reliability of its coal-fired generating fleet. EKPC's 2008 forced outages have not been the result of any deferred unit maintenance.

Q. What major scheduled maintenance activities have been performed to EKPC's coal-fired generating units since the extended forced outage on Spurlock Unit 1 in 2004?

A. EKPC continues to perform annual inspections on all of its boilers. Condition assessments of the boiler components are performed to facilitate long-term and short-term maintenance activities. Spurlock Unit 1 underwent a major turbine overhaul and generator rewind in 2004. Spurlock Unit 2 underwent a major overhaul in the spring of 2008. The Spurlock Unit 2 boiler was inspected at this time and repairs made. The Spurlock Unit 2 cooling tower was also re-built. Dale Units 4 and 3 underwent major turbine overhauls in 2006 and 2007, respectively. The Unit 3 generator was rewound at that time. Dale Unit 3 had a complete change out of a major section of boiler tubes in 2007. The Cooper Units have undergone annual outages for routine repairs and inspections and condition assessments since 2004. A major turbine overhaul for Cooper Unit 1 is scheduled for the fall of 2009. Dale Units 1 and 2 have a major overhaul scheduled for the spring of 2009. Maintenance activities continue to be a major focus of EKPC. EKPC also continues to make design improvements on the Gilbert Unit which are also incorporated into the Spurlock Unit 4.

Q. Does EKPC still follow the MEAGER program?

A. Yes, EKPC continues to follow the MEAGER program. MEAGER is an acronym for Maintaining Electric and Generation Equipment Reliability. EKPC developed this program in the 1980's as a way to identify major capital improvements and large maintenance items for its generating fleet over a 20 year planning horizon. This program is updated on an annual basis. The basis for the schedule in the MEAGER program can either be on a certain frequency such as the 10 year cycle for the major turbine overhauls, an OEM recommendation, or a component condition assessment. The items identified in the MEAGER program are used to assist in developing the annual plant maintenance budget.

Q. Does this conclude your testimony?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH A REGULATORY ASSET RELATED TO CERTAIN REPLACEMENT POWER COSTS RESULTING FROM GENERATION FORCED OUTAGES	)	**CASE NO. 2008-**

AFFIDAVIT

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Craig A. Johnson, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

Craig A Johnson
Craig A. Johnson

Subscribed and sworn before me on this 9th day of October, 2008.

Peggy S. Griffin
Notary Public

My Commission expires: December 8, 2009

ELECTRONIC GADS PUBLICATIONS
FOR WINDOWS

2002-2006

GENERATING AVAILABILITY REPORT

Introduction and Table of Contents

November 2007

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INTRODUCTION

ABOUT GADS

Generating unit availability is important to electric utilities. Poor performance has many consequences: loading units out of economic order, purchasing power, and installing new capacity, for instance. Decisions that influence availability are, therefore, far-reaching. Utilities created the Generating Availability Data System (GADS) to help them make informed decisions.

GADS is an effective tool utilities can use to study the causes and effects of unavailability. They also learn about improvement strategies that have been useful for others. This knowledge helps prevent availability losses, or at least lessens their impact.

GADS encompasses 1) an availability data collection and validation system, 2) a maintenance and support program for the resulting database, and 3) a process for analyzing the database and reporting availability trends to the industry.

The GADS database includes operating histories - some dating back to the early 1960s - for more than 6,500 electric generating units. These units represent more than 74% of the installed generating capacity in the United States and Canada. The 200+ utilities who voluntarily participate in GADS represent investor-owned, municipal, state, cooperative, provincial, independent power and federal sectors.

Each utility provides reports, detailing its units' operation and performance. The reports include types and causes of outages and deratings; unit capacity ratings; energy production; fuel use; design information, and much more. These data are summarized and published annually.

A comprehensive set of guidelines, called the "GADS Data Reporting Instructions," assures data comparability between utilities and units. Exacting validation procedures assures data accuracy.

The quantity and quality of its data have made GADS an indispensable industry asset. Utilities, manufacturers, architect/engineers, consultants, regulators, and others rely on GADS to help them improve the availability of generating units and equipment. The uses are numerous: availability trend analyses, comparative performance studies, unit benchmarking, vendor evaluations, spare parts inquiries, probability assessments, and unit modeling are just a few.

Through a process called Special Requests, NERC will provide generic GADS data for user-developed applications, and perform analyses at the user's request. A NERC software product called pc-G.A.R allows users to develop GADS-based analyses on their own. Direct inquiries to NERC's GADS Services for more information about Special Requests and the pc-GAR CD-ROM.

ABOUT THIS REPORT

The "Generating Availability Report" is the means NERC uses to distribute generating unit and equipment availability information to the industry. It presents statistics for 17 categories of electric generating units and their related equipment. Data are displayed on an annual and five-year cumulative basis. The measures of generating unit performance calculated from the GADS data, and presented in this report, are based on standard definitions and statistical methods developed by the Institute of Electrical and

Electronics Engineers (IEEE), and recognized world-wide.

Classification of Units - For the purpose of this report, units are grouped by type, size, and fuel. Type is determined from unit design data which participants supply to GADS. Size is determined from the design data, too. For fossil, nuclear, multi-boiler/ multi-turbine, combined cycle, and geothermal units, the turbine nameplate rating is used to assure consistent classification from year-to-year. The turbine nameplate is not reported for other types of units, so size is estimated by multiplying the generator megavoltamperes (MVA) by its power factor. Finally, fuel is used to classify fossil-steam units. The primary fuel - that which contributes the most Btu to thermal generation - is used.

Computation Method - The statistics in this report are composites, representing the performance of a group of units. To understand how these statistics are calculated, the following concepts are important (see the "Equations" appendix of this report, for more information).

Unit-Year - This is the common denominator used to standardize data when units in a group have different lengths of service during a report period; it is a necessary element in the calculation of Unit-Year Averages. Unit-years are determined by 1) the length of the study period, and 2) the number of years that each unit in the group was in commercial service during the study period. As an example, assume that during a five-year study period Units #1, #2, #3, and #4 were in commercial service for 3, 2, 5, and 3 years respectively. The number of unit-years is 13.

Unit-Year Average - This results from summing the data for each term in an equation, (for instance, Available Hours (AH) and Period Hours (PH) are terms in the equation for Availability Factor (AF)) and dividing each of those sums by the number of unit-years in the group. Unit-year averages are then used to calculate a composite statistic.

As an example, the composite AF for Units #1, #2, #3, and #4 for a one-year study period is calculated below. The units experienced 4,000, 5,500, 7,500, and 8,000 AH, respectively. All the units were in service during the year, but Unit #1 started commercial operation in mid-year. Thus, PH are 4380, 8760, 8760, and 8760, respectively. The number of unit-years in this example is 4. The Unit-Year Average Available Hours and Unit-Year Average Period Hours are:

$$AH = (4000 + 5500 + 7500 + 8000) / 4 = 6250$$

$$PH = (4380 + 8760 + 8760 + 8760) / 4 = 7665$$

The composite AF for this group of units is:

$$AF = (AH/PH) = (6250/7665) \times 100 = 81.54\ \%$$

DISCLAIMER
The statistics presented in this report are based on data reported to NERC GADS by its utility participants. All data are considered in these statistics, including unusual events such as lengthy forced outages and regulatory-imposed conditions that affect unit operation and performance. NERC does not warrant or guarantee the accuracy of those underlying data, and assumes no liability thereof.

ACKNOWLEDGEMENTS
NERC thanks all the utility representatives responsible for the

preparation and submittal of electric generating unit data and for all their efforts. Without this foundation data, this report would not have been possible. We believe this report benefits all who participated in this task, and is valuable to electric utilities and those who provide services to them.

Date-11/02/07

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
UNIT SUMMARY REPORT

FOSSIL Coal Primary 001-099 MW 2002-2006 Data

******* NERC STANDARD *******		******* WEIGHTED METHOD ******	
NCF	53.35		
SF	72.28	WSF	73.35
AF	88.36	WAF	88.52
EAF	85.43	WEAF	85.55
FOR	5.22	WFOR	5.01
EFOR	7.74	WEFOR	7.60
SOF	7.66	WSOF	7.62
FOF	3.98	WFOF	3.87
AGE	46.09		
UNIT YEARS	719.75	UNIT YEARS	719.75
PH	8,763.69	WPH	576,593.47
AH	7,743.59	WAH	510,374.07
SH	6,334.58	WSH	422,944.01
ESDH	30.41	WESDH	2,024.09
EFDH	170.23	WEFDH	11,645.67
EMDH	11.39	WEMDH	796.50
EPDH	19.02	WEPDH	1,227.59
FOH	348.69	WFOH	22,309.16
POH	482.30	WPOH	32,157.46
MOH	189.11	WMOH	11,028.87
ERSH	1,386.51	WERSH	85,916.73
NET GENERATION	307,622.00		
PH x NMC	576,593.47		
NMC	66.00		

FOR for Dale Units 1-4 – Category 001-099 MW

Date-11/02/07

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
UNIT SUMMARY REPORT

FOSSIL Coal Primary 100-199 MW 2002-2006 Data

******** NERC STANDARD *******		******* WEIGHTED METHOD ******	
NCF	65.78		
SF	83.52	WSF	84.07
AF	88.80	WAF	88.70
EAF	85.43	WEAF	85.41
FOR	4.48	WFOR	4.44
EFOR	6.58	WEFOR	6.49
SOF	7.28	WSOF	7.40
FOF	3.91	WFOF	3.90
AGE	45.87		
UNIT YEARS	1,135.17	UNIT YEARS	1,135.17
PH	8,764.91	WPH	1,213,037.14
AH	7,783.53	WAH	1,075,930.37
SH	7,320.63	WSH	1,019,762.92
ESDH	85.28	WESDH	11,484.37
EFDH	161.95	WEFDH	22,012.18
EMDH	55.72	WEMDH	7,913.50
EPDH	29.56	WEPDH	3,570.87
FOH	343.07	WFOH	47,346.06
POH	461.94	WPOH	64,316.40
MOH	176.22	WMOH	24,316.18
ERSH	451.78	WERSH	54,750.01
NET GENERATION	797,924.00		
PH x NMC	1,213,037.14		
NMC	138.00		

FOR for Cooper Unit 1 – Category 100-199 MW

Date-11/02/07

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
UNIT SUMMARY REPORT

FOSSIL Coal Primary 200-299 MW 2002-2006 Data

******** NERC STANDARD *******		******* WEIGHTED METHOD ******	
NCF	70.79		
SF	86.33	WSF	86.31
AF	88.14	WAF	88.12
EAF	85.31	WEAF	85.25
FOR	4.65	WFOR	4.65
EFOR	6.02	WEFOR	6.03
SOF	7.65	WSOF	7.67
FOF	4.21	WFOF	4.21
AGE	40.82		
UNIT YEARS	578.75	UNIT YEARS	578.75

PH	8,764.74	WPH	2,031,388.59
AH	7,725.59	WAH	1,790,044.08
SH	7,566.34	WSH	1,753,367.88
ESDH	77.28	WESDH	17,624.01
EFDH	108.63	WEFDH	25,411.77
EMDH	45.03	WEMDH	10,850.33
EPDH	32.25	WEPDH	6,773.68
FOH	368.77	WFOH	85,551.92
POH	531.42	WPOH	122,084.75
MOH	138.82	WMOH	31,501.47
ERSH	140.99	WERSH	32,336.26
NET GENERATION	1,437,933.00		
PH x NMC	2,031,388.59		
NMC	232.00		

FOR for Cooper Unit 2 and Gilbert – Category 200-299 MW

Date-11/02/07

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
UNIT SUMMARY REPORT

FOSSIL Coal Primary 300-399 MW 2002-2006 Data

******** NERC STANDARD *******		******* WEIGHTED METHOD ******	
NCF	71.76		
SF	86.87	WSF	87.12
AF	87.80	WAF	88.01
EAF	85.25	WEAF	85.50
FOR	4.24	WFOR	4.14
EFOR	6.14	WEFOR	6.00
SOF	8.36	WSOF	8.23
FOF	3.84	WFOF	3.76
AGE	33.71		
UNIT YEARS	373.25	UNIT YEARS	373.25

PH	8,765.97	WPH	2,946,541.64
AH	7,696.61	WAH	2,593,281.50
SH	7,614.81	WSH	2,567,018.03
ESDH	46.53	WESDH	15,589.45
EFDH	151.75	WEFDH	49,794.69
EMDH	24.15	WEMDH	8,051.38
EPDH	22.38	WEPDH	7,538.07
FOH	336.76	WFOH	110,812.29
POH	582.39	WPOH	191,470.02
MOH	150.06	WMOH	48,587.16
ERSH	66.79	WERSH	21,262.24
NET GENERATION	2,114,321.00		
PH x NMC	2,946,541.64		
NMC	336.00		

FOR for Spurlock Unit 1 – Category 300-399 MW

Date-11/02/07

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
UNIT SUMMARY REPORT

FOSSIL Coal Primary 400-599 MW 2002-2006 Data

******** NERC STANDARD *******		******* WEIGHTED METHOD ******	
NCF	74.10		
SF	85.78	WSF	85.91
AF	86.63	WAF	86.69
EAF	83.92	WEAF	84.04
FOR	5.10	WFOR	5.06
EFOR	7.32	WEFOR	7.21
SOF	8.78	WSOF	8.74
FOF	4.61	WFOF	4.58
AGE	27.74		
UNIT YEARS	743.50	UNIT YEARS	743.50
PH	8,764.80	WPH	4,502,891.79
AH	7,592.90	WAH	3,903,609.42
SH	7,518.25	WSH	3,868,239.94
ESDH	38.42	WESDH	19,236.52
EFDH	176.39	WEFDH	87,903.13
EMDH	15.56	WEMDH	7,496.29
EPDH	22.86	WEPDH	11,740.23
FOH	403.86	WFOH	206,072.29
POH	621.30	WPOH	311,233.54
MOH	146.63	WMOH	73,593.83
ERSH	48.01	WERSH	23,238.32
NET GENERATION	3,336,862.00		
PH x NMC	4,502,891.79		
NMC	514.00		

FOR for Spurlock Unit 2 – Category 400-599 MW