EAST KENTUCKY POWER COOPERATIVE

August 22, 2007

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PUBLIC SERVICE
COMMISSION

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

Re: Surcharge Interim Options

Dear Ms. O'Donnell:

East Kentucky Power Cooperative, Inc. ("EKPC") hereby submits an original and ten (10) copies of its comments in regard to the interim options for rate surcharges, pursuant to the Public Service Commission (the "Commission") guidelines dated August 16, 2007.

1. **EKPC Supports Option One-** EKPC strongly supports only the first option identified by the Commission at the August 16, 2007 meeting, which is for the Commission to continue to regulate the Fuel Adjustment Clause ("FAC") and other established rate surcharges and riders as usual, until the final outcome of the appeal of Franklin Circuit Court Case No. 06-CI-269. The legal arguments concerning the status of that case, and the due process implications of the Commission pursuing either of the other identified interim options regarding such surcharges, are very well stated in the comments of Mr. Kendrick Riggs, submitted in this matter on behalf of Louisville Gas and Electric Company and Kentucky Utilities Company, with which EKPC agrees and fully supports. The potential adverse impacts on the operations and finances of EKPC of either of the other interim options are discussed below.

2. **Likely Rate Impacts of Options-** Of the three interim options for surcharges identified by the Commission, which are maintaining the status quo of the regulation of surcharges, suspending surcharges not specifically authorized by statutes, or making prospective surcharge recoveries subject to refund, only the first option would not create the potential for serious adverse rate consequences for EKPC.

The Commission recognized the urgency of EKPC's current financial circumstances by granting interim rate relief to EKPC in PSC Case No. 2006-00472, effective on April 1, 2007. EKPC's current reliance on peaking generation and purchased power has been exacerbated by the loss of peaking capacity from the Southeastern Power Administration and the de-rating of the Cooper Power Station, as a result of the lowering

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

Tel. (859) 744-4812
Fax: (859) 744-6008
http://www.ekpc.coop

of the water level of Lake Cumberland to allow repairs to the Wolf Creek Dam. At EKPC's current FAC basing point, one month of FAC revenue recovery amounts to approximately $27 million, which exceeds EKPC's total margins in most years. Even a one month suspension of the current recovery of that level of costs would threaten EKPC's financial survival. EKPC estimates that it would need immediate, emergency rate relief from the Commission for a minimum annual increase of $320 million, if the FAC recovery were suspended.

If those FAC cost recoveries were made subject to refund, EKPC could be required to record such costs as a contingent liability for accounting purposes, which would compound the difficulties that EKPC faces in the near future in satisfying the financial covenants of its Rural Utilities Service Mortgage and its private Credit Facility. Under that option, EKPC would also likely be forced to seek immediate additional rate relief.

3. **EKPC Surcharges-** EKPC is subject to the Fuel Adjustment Clause, and we are not aware of any other surcharges or riders applicable to EKPC tariffs that would be implicated by the Opinion and Order in Franklin Circuit Court Case No. 06-CI-269.

4. **EKPC Surcharge Annual Revenues-** EKPC derived approximately $327.1 million in annual revenue in 2006, which represents 50.25% of its total annual operating revenue, from the recovery of fuel and purchased power costs under the FAC.

5. **Compliance Costs of General Rate Case Adjustments-** In the event that EKPC could only recover its fuel and purchased power costs through a general rate case, due to a suspension of the FAC recovery, EKPC would expect to file a new rate case every 12 months. EKPC estimates that the costs of filing repeated general rate cases would be in excess of $125,000 per case.

6. **Implications of Options on Credit, Securities, Operations-** EKPC does not foresee any adverse impacts of the first interim surcharge option on the cost or availability of credit, on its outstanding financing, or on its operations. However, the suspension of the FAC, or the recovery of FAC revenues subject to refund, are very likely to have major adverse impacts on EKPC's cost of credit, the availability of credit, including credit from fuel and power suppliers, and on EKPC's future ability to meet its loan covenants. These impacts would be very likely to result in adverse effects on EKPC's operations and its ability to reliably meet its member systems' power supply requirements.

EKPC is committed to taking responsible actions to strengthen its financial condition, and recognizes that it already faces significant challenges in this effort in the next few years. The choice that the Commission makes in regard to the regulation of the FAC in the interim period will, therefore, have a critical impact on the success of EKPC's financial plans. While other affected utilities in Kentucky may not face such urgent short term financial concerns in this interim period, each of those companies shares the risk of adverse effects on revenue recovery if the Commission changes its administration of rate surcharges. EKPC believes that the status quo option is the only alternative which avoids potential adverse impacts on all of the jurisdictional utilities utilizing surcharges, and strongly urges the Commission to follow that course.

Very truly yours,

Charles A. Lile

Charles A. Lile
Senior Corporate Counsel
859 745-9380
charles.lile@ekpc.coop