COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY, AND A SITE COMPATIBILITY CERTIFICATE, FOR THE CONSTRUCTION OF TWO 80 MW COMBUSTION TURBINE GENERATING UNITS IN CLARK COUNTY, KENTUCKY	)))))))	CASE NO. 2003-00297

O R D E R

East Kentucky Power Cooperative, Inc. ("EKPC") filed its application on November 19, 2003 requesting a Certificate of Public Convenience and Necessity ("CPCN") and a Site Compatibility Certificate ("SCC") for the construction of two 80 Megawatt ("MW") combustion turbines ("CTs") at its existing J.K. Smith generation site in Clark County, Kentucky. The Attorney General ("AG") requested and was granted intervention in this proceeding. The AG filed no testimony or objection to the two CTs.

EKPC estimates the total installed cost of the two CTs to be approximately $50 million. Based on its load forecast, the CTs are needed by December 2004. EKPC states that the CTs are the most reasonable option available to meet its loads. EKPC issued a Request for Proposal ("RFP") for peaking capacity in December 2002. EKPC received and evaluated several proposals for supplying its peaking needs. EKPC's evaluation supported construction of two new GE7EA series CTs at the J.K. Smith site due to the following advantages:

1. The J.K. Smith site is already air permitted for two additional GE7EA series turbines.

2. The CTs can be operated on short notice in the event of extreme load conditions, unit forced outages, or other unforeseen circumstances.

3. EKPC is familiar with the GE7EA CTs since similar CTs are currently in operation at the J.K. Smith site.

4. The purchase power proposals received in response to the RFP were not economically competitive with the CTs located on EKPC's system; nor do they offer sufficient flexibility and transmission reliability.

The proposed CTs are dual fuel units already manufactured and in storage that can be operated on fuel oil or natural gas. EKPC has arranged with the seller and manufacturer for the CTs to be warranted as if EKPC had acquired them directly from the manufacturer. Although four of the proposals received by EKPC to construct GE7EA CTs at the J.K. Smith site had a lower or equal $/MWH cost than the successful bidder, those proposals were rejected because they would not agree to lock in the price or availability until EKPC obtained regulatory approval. The difference between the highest and lowest costs of the five proposals was less than two percent.

Another of the proposals received was for distributed generation ("DG") which would have a lower present value cost than the proposed CTs. The DG consists of 2 MW reciprocating natural gas engines in 20 MW configurations that would be run at peak times and located at various EKPC transmission substation sites. Despite the lower cost of the DG, EKPC explained that it had no experience with such unmanned, widely dispersed generation and that 100 DG units would be needed to achieve the

equivalent level of capacity available from 2 CTs. EKPC further stated that it was receptive to installing DG and would add a 20 MW module to test its effectiveness through at least one peaking season. Depending on the result of that test, EKPC will evaluate the feasibility of installing additional DG.

EKPC filed a site assessment report pursuant to KRS 278.216 and 278.708. The report shows no adverse impact to the surrounding site. The CTs will be constructed at an existing generation site, the J.K. Smith site in Clark County, Kentucky, which already has five CTs.

Based on the evidence of record, the Commission finds that there is a need and demand on EKPC's system for the proposed CTs and related facilities, with a planned in-service date of December 2004. The proposed construction is reasonable and will not result in wasteful duplication of utility facilities, and should therefore be approved. While the proposed CTs are not the least cost option, due to the bidders of the lower cost options not agreeing to lock in the price or the availability of their CTs, and due to EKPC's lack of experience with dispersed generation, the Commission finds that their selection is reasonable. The Commission also finds that the EKPC has met the requirements for a SCC and that one should be granted.

IT IS THEREFORE ORDERED that:

1. EKPC is granted a CPCN to construct the two 80 MW CTs at the J.K. Smith site.

2. EKPC's request for a SCC is granted.

Done at Frankfort, Kentucky, this 5th day of January, 2004.

By the Commission

ATTEST:

Executive Director