

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 THROUGH OCTOBER 31,)
2006)

O R D E R

Pursuant to Administrative Regulation 807 KAR 5:056, Section 1(11) and (12), IT
IS HEREBY ORDERED that:

1. East Kentucky Power Cooperative, Inc. ("East Kentucky") shall appear in
Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort,
Kentucky, on March 14, 2007 at 9:00 a.m., Eastern Standard Time, to submit itself to
examination on the application of its fuel adjustment clause from November 1, 2004 to
October 31, 2006.

2. East Kentucky shall notify its customers in writing of the date, time, place,
and purpose of the hearing or shall publish the notice in accordance with Administrative
Regulation 807 KAR 5:011, Section 8(5).

3. The Commission adopts the procedural schedule set forth in Appendix A
to this Order.

4. East Kentucky shall, on or before January 22, 2007, file with the
Commission an original and 6 copies of the information listed in Appendix B. Each copy
shall be placed in a bound volume with each item tabbed. When a number of sheets
are required for an item, each sheet should be appropriately indexed; for example, Item

1(a), Sheet 2 of 6. East Kentucky shall furnish with each response the name of the witness who will be available at the public hearing to respond to questions concerning each area of information requested. Careful attention shall be given to copied material to ensure its legibility.

5. East Kentucky shall, on or before January 22, 2007, file with the Commission written direct testimony of its witnesses whom East Kentucky intends to call at the scheduled hearing in this matter. The written direct testimony of these witnesses shall address, inter alia, the following issues:

a. The reasonableness of East Kentucky's fuel procurement practices during the review period.

b. Coal suppliers' adherence to contract delivery schedules during the review period.

c. East Kentucky's efforts to ensure coal suppliers' adherence to contract delivery schedules during the review period.

d. East Kentucky's efforts to maintain the adequacy of its coal supplies in light of any coal supplier's inability or unwillingness to make contract coal deliveries.

e. Any changes in coal market conditions that occurred during the review period or that East Kentucky expects to occur within the next 2 years that have significantly affected or will significantly affect East Kentucky's coal procurement practices.

f. Any changes in the wholesale electric power market that occurred during the review period or that East Kentucky expects to occur within the next 2 years

that have significantly affected or will significantly affect East Kentucky's electric power procurement practices.

6. At the scheduled hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.

7. Any party that files testimony in this proceeding shall file an original and 6 copies of that testimony.

8. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

9. All documents that the Commission requires any party to file with the Commission shall also be served upon all parties of record at or before the time of filing.

10. All parties shall prepare interrogatories and requests for production of documents in accordance with the procedural schedule set forth in Appendix A.

11. All documents that East Kentucky filed with the Commission pursuant to Administrative Regulation 807 KAR 5:056, Section 1(7) and 1(9), for the period under review are incorporated by reference into the record of this proceeding.

12. The records of Cases No. 2005-00241,¹ 2005-00495,² and 2006-00263³ are incorporated by reference into this proceeding.

¹ Case No. 2005-00241, An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2004 through April 30, 2005.

² Case No. 2005-00495, An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2005 through October 31, 2005.

³ Case No. 2006-00263, An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2005 through April 30, 2006.

13. Any intervening party that wishes to file testimony in this matter shall advise the Commission in writing of its wishes and shall move for modification of the procedural schedule to permit the filing no later than January 31, 2007.

14. Motions for extensions of time with respect to the attached procedural schedule shall be made in writing and will be granted only upon a showing of good cause.

Done at Frankfort, Kentucky, this 18th day of December, 2006.

By the Commission

ATTEST:



Executive Director

APPENDIX A

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00508 DATED DECEMBER 18, 2006

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| East Kentucky shall file with the Commission the direct testimony of its witnesses in verified prepared form and the information set forth in Appendix B no later than | 01/22/2007 |
| Intervenors and Commission Staff may serve interrogatories and requests for production of documents upon East Kentucky no later than | 02/08/2007 |
| East Kentucky shall file with the Commission responses to interrogatories and requests for production of documents no later than | 02/23/2007 |
| Last day for East Kentucky to publish notice of hearing date | 03/07/2007 |
| Public Hearing is to begin at 9:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses | 03/14/2007 |

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00508 DATED DECEMBER 18, 2006

1. State the month to be used as the base period (b). Include a comprehensive, detailed explanation of the factors considered in the selection of this month as being representative of the net generating cost per kWh that East Kentucky will incur between November 1, 2006 and October 31, 2008 (“the next 2-year period”).

2. Provide a calculation of the fossil fuel costs F(b) that East Kentucky proposes to use to calculate the base period fuel cost. This calculation shall show each component of F(b) as defined by Administrative Regulation 807 KAR 5:056. Explain why the fuel cost in the selected base period is representative of the level of fuel cost that East Kentucky will incur during the next 2-year period.

3. Provide a schedule showing each component of sales as defined by Administrative Regulation 807 KAR 5:056 in the selected base period (b). Explain why East Kentucky believes that the sales in the selected base period (b) are representative of the level of kWh sales that East Kentucky will derive from the level of fuel cost incurred during the selected base period (b).

4. Provide a schedule showing the calculation of East Kentucky’s proposed increase or decrease in its base fuel cost per kWh to be incorporated into its base rate.

5. Provide East Kentucky’s most recent projected fuel requirements for the years 2007 and 2008 in tons and dollars.

6. Provide East Kentucky’s most recent sales projections for the years 2007 and 2008 in kWh and dollars.

7. Provide separately the amounts of power purchases used in the calculation of sales provided in response to Item 3.

8. Provide separately the amounts of intersystem power sales used in the calculation of sales provided in response to Item 3.

9. Provide the planned maintenance schedule for each of East Kentucky's generating units for the years 2007 and 2008.

10. For the years ending October 31, 2005 and October 31, 2006, provide:

- a. maximum annual system demand; and,
- b. average annual demand.

11. List all firm power commitments for East Kentucky for the years 2007 and 2008 for (a) purchases and (b) sales. This list shall identify the other party (buyer or seller), the amount of commitment in MW, and the purpose of the commitment (e.g., peaking, emergency).

12. Provide a monthly billing summary for all sales other than native load sales for the period November 1, 2004 through October 31, 2006.

13. a. Provide a schedule of the calculation of the 12-month average line loss by month for November 2004 through October 2006.

b. Describe the actions that East Kentucky has taken to reduce line loss during this period.

14. List East Kentucky's scheduled, actual, and forced outages between May 1, 2006 and October 31, 2006.

15. For each existing fuel contract categorized as long-term (i.e., more than 1 year in length), provide:

- a. Supplier's name and address;
- b. Name and location of production facility;
- c. Date when contract executed;
- d. Duration of contract;
- e. Date(s) of each contract revision, modification or amendment;
- f. Annual tonnage requirements;
- g. Actual annual tonnage received since the contract's inception;
- h. Percent of annual requirements received during the contract's term;
- i. Base price;
- j. Total amount of price escalations to date; and,
- k. Current price paid for coal under the contract (i + j).

16. Provide a schedule of the present and proposed rates that East Kentucky seeks to change pursuant to Administrative Regulation 807 KAR 5:056, shown in comparative form.

17. Provide a statement showing by cross-outs and italicized inserts all proposed changes in rates. A copy of the current tariff may be used.

18. a. Does East Kentucky regularly compare the price of its coal purchases with those paid by other electric utilities?

b. If yes, state:

(1) The utilities that are included in this comparison and their location; and,

(2) How East Kentucky's prices compare with those of the other utilities for the review period.

19. What percentage of East Kentucky's coal, as of the date of this Order, is delivered by:

- a. barge?
- b. rail?
- c. truck?

20. a. State East Kentucky's coal inventory level in tons and in number of days' supply as of November 1, 2006.

b. Describe the criteria used to determine number of days' supply.

c. Compare East Kentucky's coal inventory as of November 1, 2006 to its inventory target for that date.

d. If actual coal inventory exceeds inventory target by 10 days' supply, state the reasons for the additional inventory.

e. (1) Does East Kentucky expect any significant changes in its current coal inventory target within the next 12 months?

(2) If yes, state the expected change and the reasons for this change.

21. a. Has East Kentucky audited any of its coal contracts during the period from May 1, 2006 to October 31, 2006?

b. If yes, for each audited contract:

(1) Identify the contract.

(2) Identify the auditor.

(3) State the results of the audit.

(4) Describe the actions that East Kentucky took as a result of the audit.

22. a. Has East Kentucky received any complaints regarding its fuel adjustment clause during the period from May 1, 2006 to October 31, 2006?

b. If yes, for each complaint, state:

(1) The nature of the complaint.

(2) East Kentucky's response.

23. a. Is East Kentucky currently involved in any litigation with its current or former coal suppliers?

b. If yes, for each litigation:

(1) Identify the coal supplier.

(2) Identify the coal contract involved.

(3) State the potential liability or recovery to East Kentucky.

(4) List the issues presented.

(5) Provide a copy of the complaint or other legal pleading that initiated the litigation and East Kentucky's response, if not previously filed with the Commission.

c. State the current status of all litigation with coal suppliers.

24. List each written coal supply solicitation issued during the period May 1, 2006 to October 31, 2006.

a. For each solicitation, provide the date of the solicitation (contract or spot), the quantities solicited, a general description of the quality of coal solicited, the

time period over which deliveries were requested, and the generating units(s) for which the coal was intended.

b. For each solicitation, state the number of vendors to whom the solicitation was sent, the number of vendors who responded, and the selected vendor. Provide the bid tabulation sheet or corresponding document that ranks the proposals. (This document shall identify all vendors who made offers.) State the reasons for each selection.

25. List each oral coal supply solicitation issued during the period from May 1, 2006 to October 31, 2006.

a. For each solicitation, state why the solicitation was not written, the date(s) of the solicitation, the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, identify all vendors solicited and the vendor selected. Provide the bid tabulation sheet or other document that ranks the proposals. (This document shall identify all vendors who made offers.) State the reasons for each selection.

26. For the period from May 1, 2006 to October 31, 2006, list each vendor from whom coal was purchased and the quantities and nature of each purchase (e.g., spot or contract).

27. For each generating station or unit for which a separate coal pile is maintained, state for the period from May 1, 2006 to October 31, 2006, the actual

amount of coal burned in tons, actual amount of coal deliveries in tons, total kWh generated, and actual capacity factor at which the plant operated.

28. a. During the period from May 1, 2006 to October 31, 2006, have there been any changes to East Kentucky's written policies and procedures regarding its fuel procurement?

b. If yes,

(1) What were these changes?

(2) When were these changes made?

(3) Why were they made?

(4) Provide these written policies and procedures as changed.

c. If no, provide the date when East Kentucky's current fuel procurement policies and procedures were last changed and when they were last provided to the Commission.

29. a. Is East Kentucky aware of any violations of its policies and procedures regarding fuel procurement that occurred prior to or during the period from May 1, 2006 to October 31, 2006?

b. If yes, for each violation:

(1) Describe the violation.

(2) Describe the action(s) that East Kentucky took upon discovering the violation.

(3) Identify the person(s) who committed the violation.

30. Identify all changes in the organizational structure and personnel of the departments or divisions that are responsible for East Kentucky's fuel procurement activities that occurred during the period from May 1, 2006 to October 31, 2006.

31. a. Identify all changes that East Kentucky made during the period from May 1, 2006 to October 31, 2006 to its maintenance and operation practices that affect fuel usage at East Kentucky's generation facilities.

b. Describe the effect of these changes on East Kentucky's fuel usage.

32. a. List all intersystem sales during the period from May 1, 2006 to October 31, 2006 in which East Kentucky used a third-party's transmission system.

b. For each sale listed above:

(1) Describe how East Kentucky addressed for fuel adjustment clause reporting purposes the cost of fuel expended to cover any line losses incurred to transmit its power across the third-party's transmission system.

(2) State the line loss factor used for each transaction and describe how such line loss factor was determined.

33. Describe any changes that occurred during the period from May 1, 2006 to October 31, 2006 that affected East Kentucky's determination of intersystem sales line losses.

34. In its most recent 2-year case, the roll-in of fuel costs into East Kentucky's base rates was approved using a "flash cut" approach, which resulted in an immediate change from its then-existing base fuel cost to its new base fuel cost, rather than a "transitional approach" in which the first month's fuel cost is an average of the old and

new base fuel cost. East Kentucky also indicated its preference that any change in base rates be approved on a “service rendered” basis rather than a “bills rendered” basis. If the current FAC review results in changes in its base rates, does East Kentucky continue to prefer the same “flash cut” approach on a “service rendered” basis as authorized in the previous 2-year case? Explain.