

June 11, 2002

Stephanie Bell
Kentucky State Board on Electrical
Generation and Transmission Siting
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Re: Case No. 2002-00149 – Kentucky Mountain Power, LLC

Dear Ms. Bell:

In response to your request for additional information concerning Kentucky Mountain Power, LLC's ("KMP") interconnection with Kentucky Power Company, a division of AEP (collectively "AEP"), please consider the following:

In May 2001, AEP and KMP executed an Interconnection and Operation Agreement for the interconnection of KMP's proposed nominal 500 MW coal fired baseload electrical generating power plant in Knott County, Kentucky to the AEP electrical grid at the Hazard and Beaver Creek substations ("Interconnection Agreement"). Under the Interconnection Agreement, KMP is building the Talcum Switching Station and the 138kv transmission lines from the KMP plant site to the AEP substations located in Harbert and Hazard. See Interconnection Agreement, Appendix A. Under the same agreement, KMP is required to transfer all of the transmission system it constructs outside of the electrical substation located on the KMP plant site to AEP prior to the time any electricity moves across it to the existing AEP system. See *Id.*, Section 3.6(b). AEP will construct and own the balance of the interconnection system. See *Id.*, Appendix A. KMP has already secured the right-of-ways and easements necessary for the construction of the entire transmission system and will transfer the same to AEP at the same time as the transmission lines are deeded to AEP.

AEP's requirements for ownership of the transmission lines under the Interconnection Agreement is consistent with FERC regulations which require a regulated entity to control any transmission lines in which power can freely flow bi-directionally. With KMP's interconnection to two separate substations, electricity will flow not only out of the KMP plant, but also through it where said power has been generated from other sources. Electricity generally travels in the

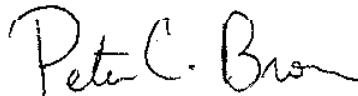
path of least resistance, which occasionally will be back through the power plant. FERC requires a regulated entity to control KMP's proposed transmission lines to insure that the stability and safety of the power grid will be maintained at all times. Further, such a practice gives FERC the ability to step in and sanction an entity it has authority over where such stability and safety is in jeopardy of being compromised.

FERC does not require a merchant generation facility to transfer the transmission lines it constructs to a regulated entity where the lines serve only to interconnect the facility to the electrical grid and will not act as an electrical conduit back through the facility to another part of the electrical grid, or in other words, act as an integral part of the electrical grid. One such transmission line will be built for the KMP plant from KMP's generator substation to the AEP Talcum substation. The line, which is approximately 2,000 feet long, will be owned and operated by KMP and will not fall under the regulation of the Kentucky Public Service Commission. A request for consent to construct this line has been included in KMP's application for a certificate to construct a merchant electricity generating plant filed with the Kentucky State Board on Electrical Generation and Transmission Siting.

After reviewing the new siting legislation regarding electrical transmission lines, KMP has concluded that AEP is the logical party to file for the construction and operation of such lines as they are the party in interest, namely the one that will own and operate the line to transmit electricity across. AEP is also the party who can answer any question concerning any impacts from the operation of the proposed transmission lines, which is one of the primary concerns the Siting Board is investigating. Under the Interconnection Agreement and FERC regulations, AEP will be the only party to own or operate the transmission lines when electricity crosses them.

If you have any questions concerning this matter, please don't hesitate to contact me at either (859) 422-5562 or (859) 492-2323.

Sincerely,



Peter C. Brown
Director of Contract Administration
EnviroPower, LLC

cc: Randy Bird

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