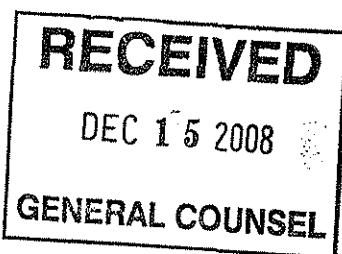


ESTILL COUNTY ENERGY PARTNERS, LLC



December 12, 2008

Chairman, Kentucky State Board on Electric Generation and Transmission Siting
c/o Michael F. Buford, Director of Filings Division
Public Service Commission
211 Sower Blvd., P. O. Box 615
Frankfort, KY 406021

Re: Estill County Energy Partners, LLC ("ECEP")
Annual Report for 2008

Dear Mr. Chairman:

On October 12, 2004 the State Board on Electric Generation and Transmission Siting ("Board") granted approval of ECEP's request for siting of an electric generating facility. Appendix A of that order has some reporting requirements regarding construction of the proposed power generating facility. This letter is intended to constitute the report for 2008.

Overview

ECEP filed its application for the Air Permit in September 2008 and the review process is proceeding at this time. ECEP expects to obtain a draft Air Permit in the first quarter of 2009.

ECEP received approval for its KPDES Water Discharge Permit and was placed on public notice in July 2008. Objections were filed by a number of groups as a result of the public filing. A hearing was requested and held on September 15, 2008. The Kentucky Division of Water has responded to the objections and anticipates issuance of the permit during December 2008 or January 2009.

Recent legislative changes allow water withdrawal permits to be issued within 36 months of the time when the withdrawal of water is necessary. ECEP plans to file an application for its water withdrawal permit in late 2009.

On June 18, 2008, the United States Court of Appeals for the Sixth Circuit affirmed the decisions of the United States District Court and the United States District Court in the matter of DLX, Inc. v. Fox Trot Properties, LLC. This had the effect of determining that DLX, Inc. is the owner of the disputed refuse pile tract. The parties to that litigation are in the processes of

preparing the necessary deeds to effect the Bankruptcy Court decisions with respect to the property and those deeds should be completed by December 31, 2008. Fox Trot Properties, LLC has money judgments against DLX, Inc. and judgment liens on the refuse pile tract which it is proceeding to enforce in the Estill Circuit Court and it anticipates that its judgment liens will allow it to acquire the refuse pile tract at a court ordered lien foreclosure sale.

During 2007, ECEP requested and received a Commercialization Energy Grant through the Governor's Office of Energy Policy. Funding was used for power plant engineering designs, the KYDAQ air permit, test burn of coal waste, and plans for ash placement at the site. ECEP has been awarded an additional Commercialization Energy Grant and is in the process of completing the documents necessary to initiate funding of that grant. During 2008, ECEP has continued to seek funding for development of the project.

Implementation of Site Development Plan

ECEP has not:

1. altered access control to the site.
2. made any substantive modifications to the proposed buildings, transmission lines and other structures.
3. made any substantive modifications to the access ways, internal roads and railways serving the site.
4. developed utilities to service the site.

Local Hiring and Procurement

ECEP has not begun final design of the proposed power plant and as such, cannot address hiring of local workers or vendors. However, ECEP has endeavored to hire local engineering and legal firms during the planning and permitting phase of the project, and will make efforts to do the same during the construction and operation phase of the project.

Public Comments and Responses

Comments and opposition to the project were duly noted during the hearing held at Irvine in 2004 and during the appeal of the Siting Board's decision to approve. The Siting Board conditionally approved ECEP's Siting Certificate with a condition that requires ECEP to record a deed in the Estill County Court House that would indicate resolution of the property dispute for a portion of the site property. Since that time, we have not received notice of any complaints other than those of DLX. The status of the resolution of the DLX property dispute is described above.

December 12, 2008

Specific Mitigation Conditions

ECEP hopes and intends to resolve the matter with DLX as described above.

Please feel free to contact me with any questions regarding this filing.

Sincerely,



D. Duane Cook

General Counsel for
Estill County Energy Partners, LLC