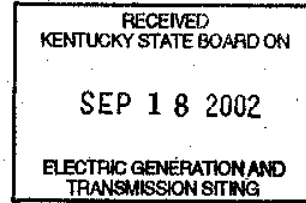




EAST KENTUCKY POWER COOPERATIVE



September 13, 2002

Mr. Harry Graves
Project Director
Kentucky Pioneer Energy, L.L.C.
312 Walnut Street, Ste. 2000
Cincinnati, OH 45202

CERTIFIED MAIL-
RETURN RECEIPT REQUESTED

Case No. 2002-00312

Dear Harry:

I have reviewed your letter received by telefax on August 28, 2002, and have investigated your statement that Kentucky Pioneer Energy, L.L.C. ("KPE") has not received the notice of termination of the Power Purchase Agreement ("PPA") which East Kentucky Power Cooperative, Inc. ("EKPC") sent on August 16, 2001. It appears possible that, even though arrangements were made to send the notice by certified mail, it was not in fact sent in that manner. If you did not receive the notice, I have enclosed a copy for your reference.

Your letter states several reasons why KPE would consider a notice to terminate the PPA to be inappropriate and premature. We feel that it is necessary to clarify our position on our rights to give such notice to KPE.

Your first assertion, that EKPC cannot give notice of termination pursuant to Section 9.4 of the PPA unless KPE has declared that it is unable to obtain financing for the project, is unsupported by the clear language of that section. Section 9.4 allows either party to the PPA to give notice of termination at any time after the amended financing deadline of June 30, 2001, if KPE did not obtain financing for the project by that date. KPE failed to obtain such financing by that date, and Section 9.4 does not require KPE to declare that fact before the notice of termination can be given by EKPC.

I am somewhat puzzled by your second assertion, and assume that you are referring to Section 9.3 of the PPA rather than Section 9.7, which you cite. If this is correct, EKPC wants to point out that Section 9.3 is an option to terminate the PPA due to the failure of KPE to meet the Commercial Operation date. This option is totally separate from the option provided in Section 9.4, relating to KPE's failure to obtain financing for the project, and has distinct language which allows an extension of the option commencement date of up to twelve months, if delay in Commercial Operation results from force majeure. EKPC's notice of termination was pursuant to Section 9.4, which does not contain any language which extends the option commencement date due to force

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

Tel. (859) 744-4812
Fax: (859) 744-6008
<http://www.ekpc.com>

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majeure delays. Section 9.3 is in no way relevant to EKPC's right to give a notice of termination pursuant to Section 9.4.

Your last item states that KPE has been slowing the progress of the project in the last year at EKPC's request, and characterizes EKPC's notice of termination as a directive to reverse this course and accelerate the schedule. Let there be no confusion that it is not EKPC's intent to direct KPE to take any actions to change its plans for the project. Furthermore, EKPC disagrees with the suggestion that KPE has slowed the progress of the project at EKPC's request.

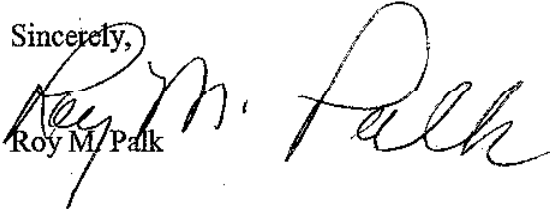
Since KPE failed to meet its amended financial closure date of June 30, 2001, it has represented to EKPC that it could not move the project forward on the terms contained in the PPA. Because KPE could not meet its contract obligations, EKPC initiated the construction of the Gilbert Unit and took other steps to satisfy its needs for power supply that EKPC had hoped the KPE project would provide. These steps significantly changed the mix and timing of EKPC's power supply plan. While EKPC continued to discuss and consider various alternative project proposals offered by KPE, we have never been told by KPE that it has found a way to proceed with the project on the existing terms approved by the Kentucky Public Service Commission. The technical assessment recently performed by Ari Geertsema, and KPE's continuing inability to meet its contract obligations, have caused EKPC to conclude that any further discussions of changes to the PPA terms would not be in the best interests of the cooperative and its member systems.

While EKPC does not agree with your letter's contention that the PPA provides KPE with any entitlement to a time extension due to new governmental approval requirements, we have decided to withdraw the notice of termination at this time, so that KPE will have an opportunity to complete its proceedings before the Kentucky Electric Generation and Transmission Siting Board (the "Siting Board"), which we understand were commenced on August 26, 2002, and to seek to achieve financial closure on the existing terms of the PPA. However, EKPC is not directing KPE to take any efforts to secure needed approvals or financing on the basis of project terms which vary from the terms of the PPA, nor is it directing KPE to take any action to accelerate the project in any manner. This withdrawal of EKPC's August 16, 2002 notice shall in no way be considered a waiver by EKPC of its option under Section 9.4 to terminate the PPA.

EKPC wishes to clearly state its intent to re-issue a notice of termination, pursuant to Section 9.4 of the PPA, on January 31, 2003, unless KPE achieves financial closure, on the existing terms of the PPA, on or before that date. This allows KPE approximately five months to complete the Siting Board's review within the time limits prescribed by law. EKPC regrets any confusion about the delivery of the first notice, and assures KPE that any discussions of this termination decision with other parties were confined to governmental and business entities with close ties to the project which had a need to know that the notice had been given. These communications were made on the good faith assumption that KPE had in fact received the notice, and EKPC does not consider such communications premature. EKPC will advise those parties of the withdrawal of the original termination notice and its plans as detailed herein.

EKPC wishes to express its appreciation for the efforts of KPE to date, and recognizes that KPE has an opportunity to go forward with the project on the existing terms of the PPA if proper financing is obtained before the end of such future termination notice period. EKPC desires to maintain a good working relationship with KPE and intends to continue to abide by all requirements of the PPA in good faith. If you wish to discuss this letter or any other aspect of EKPC's decision to terminate the PPA, please feel free to contact me.

Sincerely,


Roy M. Palk

Cc: Michael Musulin, President, Kentucky Pioneer Energy- CERTIFIED MAIL
Kenneth C. H. Willig, Esq., Piper & Marbury, L.L.P.
Administrator, RUS
Kentucky Public Service Commission ✓



EAST KENTUCKY POWER COOPERATIVE

August 16, 2002

CERTIFIED MAIL

Mr. Harry Graves
President & CEO
Kentucky Pioneer Energy L.L.C.
312 Walnut Street, Suite 2000
Cincinnati, OH 45202

Subject: Notice of Termination of Power Purchase Agreement dated
January 14, 1999, as amended

Dear Harry:

At its August 13, 2002 meeting, the East Kentucky Power Cooperative, Inc. ("East Kentucky Power") Board of Directors authorized me to issue a notice of termination of the Power Purchase Agreement between East Kentucky Power and Kentucky Pioneer Energy L.L.C. ("KPE") dated January 14, 1999, (the "Agreement") due to the failure of KPE to obtain financing for the capital requirements of the proposed IGCC project by or after the amended deadline of June 30, 2001. This letter is notice of such termination, as provided under Section 9.4 of said Agreement.

I regret that KPE has been unable to bring this IGCC project to fruition as anticipated in the Agreement. If KPE is able to obtain financing for your project capital requirements within the notice period provided in Section 9.4 of the Agreement, East Kentucky Power Cooperative remains prepared to move forward with the projects. I will appreciate being advised of your plans and progress during the sixty-day termination notice window. If termination is the ultimate outcome and you desire to make a joint announcement, please let Dave Drake or me know and we will attempt to develop an announcement to the satisfaction of both parties.

I wish you well with your other ventures. East Kentucky Power strongly believes in the deployment of advanced coal-based technologies. We further believe that gasification holds great promise for electric utilities.

Thank you for your efforts on our behalf.

Sincerely,

Roy M. Palk
President and Chief Executive Officer

rmp/lm

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Tel. (859) 744-4812
Fax: (859) 744-6008
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