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PUBLIC SERVICE  
COMMISSION

November 17, 2008

HAND DELIVERED

Ms. Stephanie L. Stumbo  
Executive Director  
Public Service Commission  
Post Office Box 615  
211 Sower Boulevard  
Frankfort, KY 40602

Re: PSC Case No. 2008-00436

Dear Ms. Stumbo:

Please find enclosed for filing with the Commission, an original and seven copies of the responses of East Kentucky Power Cooperative, Inc., to the Commission Staff supplemental data requests dated November 10, 2008.

Very truly yours,



Charles A. Lile  
Corporate Counsel

Enclosures

Cc: Dennis G. Howard II, Esq.  
Michael L. Kurtz, Esq.

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

|   |   |                   |
|---|---|-------------------|
| <b>THE APPLICATION OF EAST KENTUCKY POWER</b>   | ) |                   |
| <b>COOPERATIVE, INC. FOR AN ORDER APPROVING</b> | ) |                   |
| <b>ACCOUNTING PRACTICES TO ESTABLISH A</b>      | ) | <b>CASE NO.</b>   |
| <b>REGULATORY ASSET RELATED TO CERTAIN</b>      | ) | <b>2008-00436</b> |
| <b>REPLACEMENT POWER COSTS RESULTING FROM</b>   | ) |                   |
| <b>GENERATION FORCED OUTAGES</b>                | ) |                   |

**RESPONSES TO COMMISSION STAFF'S SUPPLEMENTAL DATA REQUEST  
TO EAST KENTUCKY POWER COOPERATIVE, INC  
DATED NOVEMBER 10, 2008**

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE 2008-00436**

**COMMISSION STAFF'S SUPPLEMENTAL DATA REQUEST DATED 11/10/08**

East Kentucky Power Cooperative, Inc. (EKPC) hereby submits responses to the Commission Staff's Supplemental Data Request dated November 10, 2008. Each response with its associated supportive reference materials is individually tabbed.



COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER )  
COOPERATIVE, INC. FOR AN ORDER APPROVING )  
ACCOUNTING PRACTICES TO ESTABLISH A ) CASE NO.  
REGULATORY ASSET RELATED TO CERTAIN ) 2008-00436  
REPLACEMENT POWER COSTS RESULTING FROM )  
GENERATION FORCED OUTAGES )

CERTIFICATE

STATE OF KENTUCKY )  
COUNTY OF CLARK )

Ann F. Wood being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff Supplemental Data Request in the above-referenced case dated November 10, 2008, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

Ann F. Wood

Subscribed and sworn before me on this 17<sup>th</sup> day of November, 2008.

Jessie K. Combs  
Notary Public

My Commission expires:

12/20/08



**EAST KENTUCKY POWER COOPERATIVE, INC.  
PSC CASE NO. 2008-00436  
SUPPLEMENTAL DATA REQUEST RESPONSE**

**COMMISSION STAFF'S SUPPLEMENTAL DATA REQUEST DATED 11/10/08  
REQUEST 1**

**RESPONSIBLE PERSON:** Ann F. Wood

**COMPANY:** East Kentucky Power Cooperative, Inc.

**Request 1.** Refer to East Kentucky's response to Item 1 of the Commission Staffs ("Staff") initial data request dated October 23, 2008 ("Staffs first request"). Provide an update of the response which includes the same information for all forced outages on East Kentucky's system since August 31, 2008.

**Response 1.** Pages 2 and 3 of this response reflect an update to response 1 of Commission Staff's initial data request dated October 23, 2008. Pages 2 and 3 reflect forced outage information through October 31, 2008. Note that there were no forced outages in October.

**EAST KENTUCKY POWER COOPERATIVE, INC.  
2008 FORCED OUTAGE DETAIL**

| Plant    | Unit           | Dates of Outage | Duration of Outage | Cost of Power Lost | Cost of Replacement Power | Net Unrecovered    | Breakdown of Cost of Replacement Power |                  |                           |
|----------|----------------|-----------------|--------------------|--------------------|---------------------------|--------------------|--|------------------|---------------------------|
|          |                |                 |                    |                    |                           |                    | Generation                             | Purchased Power  | Cost of Replacement Power |
| Spurlock | Gilbert        | 3/13/08-3/14/08 | 31 Hrs 50 Mins     | \$ 75,071          | \$ 305,059                | \$ (229,988)       | \$ 557                                 | \$ 304,502       | \$ 305,059                |
|          |                | 6/24/08-6/30/08 | 145 Hrs 23 Mins    | 783,481            | 2,800,320                 | (2,016,839)        | 738,333                                | 2,061,987        | 2,800,320                 |
|          |                | 7/1/08-7/10/08  | 227 Hrs 43 Mins    | 1,274,092          | 4,205,375                 | (2,931,283)        | 1,270,811                              | 2,934,564        | 4,205,375                 |
|          |                |                 |                    |                    | <u>7,310,754</u>          | <u>(5,178,110)</u> | <u>2,009,701</u>                       | <u>5,301,053</u> | <u>7,310,754</u>          |
| Spurlock | 2              | 3/4/08-3/7/08   | 75 Hrs 51 Mins     | 849,243            | 2,584,250                 | (1,735,007)        | 393,829                                | 2,190,421        | 2,584,250                 |
|          | 2              | 3/13/08-3/14/08 | 12 Hrs 32 Mins     | 106,869            | 267,066                   | (160,197)          |  | 267,066          | 267,066                   |
|          | 2              | 6/7/08-6/8/08   | 11 Hrs 3 Mins      | 134,659            | 422,029                   | (287,370)          | 204,047                                | 217,982          | 422,029                   |
|          | 1              | 7/1/08-7/1/08   | 7 Hrs 23 Mins      | 48,446             | 160,481                   | (112,035)          | 5,729                                  | 154,752          | 160,481                   |
|          | 1              | 7/9/08-7/12/08  | 80 Hrs 58 Mins     | 534,162            | 2,050,252                 | (1,516,090)        | 250,467                                | 1,799,785        | 2,050,252                 |
|          |                |                 |                    |                    | <u>5,484,078</u>          | <u>(3,810,699)</u> | <u>854,072</u>                         | <u>4,630,006</u> | <u>5,484,078</u>          |
| Cooper   | 1              | 1/23/08-1/25/08 | 69 Hrs 30 Mins     | 161,545            | 629,864                   | (468,319)          | 145,734                                | 484,130          | 629,864                   |
|          | 2              | 1/29/08-1/29/08 | 7 Hrs 12 Mins      | 32,310             | 96,435                    | (64,125)           | 171                                    | 96,264           | 96,435                    |
|          | 2              | 4/1/08-4/1/08   | 11 Hrs 45 Mins     | 21,132             | 82,967                    | (61,835)           | 64,666                                 | 18,301           | 82,967                    |
|          | 2              | 4/5/08-4/5/08   | 8 Hrs 56 Mins      | 36,570             | 87,233                    | (50,663)           |  | 87,233           | 87,233                    |
|          | 2              | 5/15/08-5/15/08 | 17 Hrs 28 Mins     | 86,746             | 210,087                   | (123,341)          | 52,010                                 | 158,077          | 210,087                   |
|          | 2              | 6/7/08-6/7/08   | 9 Hrs 5 Mins       | 49,784             | 255,120                   | (205,336)          | 106,271                                | 148,849          | 255,120                   |
|          | 2              | 6/9/08-6/11/08  | 31 Hrs 19 Mins     | 150,300            | 390,230                   | (239,930)          | 106,447                                | 283,783          | 390,230                   |
|          | 2              | 6/13/08-6/15/08 | 49 Hrs 34 Mins     | 271,631            | 725,675                   | (454,044)          | 131,779                                | 593,896          | 725,675                   |
|          | 1              | 9/2/08-9/2/08   | 14 Hrs 5 Mins      | 43,312             | 115,291                   | (71,979)           | 38,182                                 | 77,109           | 115,291                   |
| 2        | 9/9/08-9/12/08 | 86 Hrs 9 Mins   | 429,390            | 755,742            | (326,352)                 | 76,334             | 679,408                                | 755,742          |                           |
|          |                |                 |                    |                    | <u>3,348,644</u>          | <u>(2,065,924)</u> | <u>721,594</u>                         | <u>2,627,050</u> | <u>3,348,644</u>          |



**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**2008 FORCED OUTAGE DETAIL**

| Date | Plant | Unit | Dates of Outage | Duration of Outage | Cost of Power Lost | Cost of Replacement Power | Net Unrecovered    | Breakdown of Cost of Replacement Power |                  |                           |
|------|-------|------|-----------------|--------------------|--------------------|---------------------------|--------------------|--|------------------|---------------------------|
|      |       |      |                 |                    |                    |                           |                    | Generation                             | Purchased Power  | Cost of Replacement Power |
|      |       | 4    | 1/8/08-1/11/08  | 58 Hrs 26 Mins     | 92,334             | 173,989                   | (81,655)           | 18,670                                 | 155,319          | 173,989                   |
|      |       | 4    | 1/16/08-1/18/08 | 37 Hrs 55 Mins     | 63,597             | 148,316                   | (84,719)           |  | 148,316          | 148,316                   |
|      |       | 1    | 2/9/08-2/11/08  | 35 Hrs 5 Mins      | 17,702             | 42,585                    | (24,883)           | 11,361                                 | 31,224           | 42,585                    |
|      |       | 2    | 2/3/08-2/4/08   | 26 Hrs 51 Mins     | 16,138             | 32,033                    | (15,895)           |  | 32,033           | 32,033                    |
|      |       | 2    | 2/11/08-2/12/08 | 32 Hrs 41 Mins     | 10,828             | 31,696                    | (20,868)           | 16,796                                 | 14,900           | 31,696                    |
|      |       | 1    | 3/10/08-3/12/08 | 48 Hrs 30 Mins     | 27,535             | 83,883                    | (56,348)           | 6,066                                  | 77,817           | 83,883                    |
|      |       | 4    | 3/14/08-3/16/08 | 46 Hrs 36 Mins     | 78,228             | 176,334                   | (98,106)           |  | 176,334          | 176,334                   |
|      |       | 4    | 3/16/08-3/19/08 | 59 Hrs 9 Mins      | 75,054             | 215,176                   | (140,122)          | 14,111                                 | 201,065          | 215,176                   |
|      |       | 3    | 4/29/08-4/30/08 | 28 Hrs 15 Mins     | 46,320             | 148,106                   | (101,786)          | 113,235                                | 34,871           | 148,106                   |
|      |       | 2    | 5/4/08-5/6/08   | 29 Hrs 24 Mins     | 19,485             | 49,117                    | (29,632)           | 19,241                                 | 29,876           | 49,117                    |
|      |       | 2    | 5/21/08-5/23/08 | 57 Hrs 10 Mins     | 37,085             | 80,520                    | (43,435)           | 31,203                                 | 49,317           | 80,520                    |
|      |       | 4    | 5/1/08-5/1/08   | 22 Hrs 20 Mins     | 37,541             | 84,935                    | (47,394)           | 12,379                                 | 72,556           | 84,935                    |
|      |       | 4    | 5/5/08-5/6/08   | 30 Hrs 33 Mins     | 42,414             | 114,648                   | (72,234)           | 41,884                                 | 72,764           | 114,648                   |
|      |       | 4    | 5/11/08-5/13/08 | 38 Hrs 32 Mins     | 54,029             | 138,953                   | (84,924)           | 51,219                                 | 87,734           | 138,953                   |
|      |       | 4    | 5/11/08-5/13/08 | 37 Hrs 30 Mins     | 19,889             | 38,197                    | (18,308)           | 16,926                                 | 21,271           | 38,197                    |
|      |       | 1    | 6/23/08-6/25/08 | 37 Hrs 30 Mins     | 19,889             | 38,197                    | (18,308)           | 16,926                                 | 21,271           | 38,197                    |
|      |       | 2    | 6/8/08-6/10/08  | 46 Hrs 51 Mins     | 26,354             | 92,882                    | (66,528)           | 15,081                                 | 77,801           | 92,882                    |
|      |       | 2    | 7/15/08-7/16/08 | 25 Hrs 58 Mins     | 14,556             | 32,462                    | (17,906)           | 8,141                                  | 24,321           | 32,462                    |
|      |       | 3    | 7/18/08-7/20/08 | 32 Hrs 51 Mins     | 48,361             | 107,351                   | (58,990)           | 27,973                                 | 79,378           | 107,351                   |
|      |       | 4    | 7/27/08-7/29/08 | 40 Hrs 20 Mins     | 51,364             | 119,819                   | (68,455)           | 3,272                                  | 116,547          | 119,819                   |
|      |       | 1    | 8/1/08-8/2/08   | 28 Hrs 19 Mins     | 16,749             | 37,319                    | (20,570)           |  | 37,319           | 37,319                    |
|      |       | 3    | 8/28/08-8/28/08 | 7 Hrs 49 Mins      | 10,291             | 25,356                    | (15,065)           |  | 25,356           | 25,356                    |
|      |       | 4    | 8/25/08-8/27/08 | 32 Hrs 19 Mins     | 47,265             | 87,151                    | (39,886)           | -                                      | 87,151           | 87,151                    |
|      |       | 4    | 9/15/08-9/18/08 | 64 Hrs 11 Mins     | 76,521             | 115,274                   | (38,753)           | 14,010                                 | 101,264          | 115,274                   |
|      |       |      |                 |                    |                    | <u>2,176,102</u>          | <u>(1,246,462)</u> | <u>421,568</u>                         | <u>1,754,534</u> | <u>2,176,102</u>          |

Total \$ (12,301,196)



**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2008-00436**  
**SUPPLEMENTAL DATA REQUEST RESPONSE**

**COMMISSION STAFF'S SUPPLEMENTAL DATA REQUEST DATED 11/10/08**  
**REQUEST 2**

**RESPONSIBLE PERSON:**           **Ann F. Wood**

**COMPANY:**                       **East Kentucky Power Cooperative, Inc.**

**Request 2.**                   Refer to East Kentucky's response to Item 3 of the Staff's first request which indicates that East Kentucky requests a decision in this proceeding by December 17, 2008.

**Request 2a.**               Provide the date by which East Kentucky must close its books for December 2008.

**Response 2a.**           East Kentucky is scheduled to close its books for December by January 20, 2009.

**Request 2b.**               Describe in detail the procedures East Kentucky must undertake during the last two weeks of December that cause it to request a Commission decision by December 17, 2008.

**Response 2b.**           The request for a Commission decision by December 17, 2008 is not specifically a matter of procedures that East Kentucky must undertake during the last two weeks of 2008. Rather, it is an issue of timing related to the circumstances that will prevail, as explained in my Direct Testimony. East Kentucky expects to fail the

minimum financial requirements of its Credit Facility Agreement for the year ending December 31, 2008 absent any relief from the Commission on this request.

Because of the high probability that East Kentucky will not meet the requirements of its debt covenants under its Credit Facility Agreement, East Kentucky needs additional time to notify lenders of its failure to meet these requirements and of its intent to request a waiver of certain financial covenants. Due to the fact that there are 16 lenders involved in the Credit Facility syndicate, the legal process and approval procedure necessary to negotiate such a waiver will take up to 60 days. East Kentucky must ensure that this issue is resolved, so that the issuance of the final audit report is not delayed. In addition, the Audit Committee of East Kentucky's Board of Directors has selected a new accounting firm to perform the audit of East Kentucky's 2008 financial records. Deloitte & Touche LLP has replaced Crowe Chizek and Company LLC as auditors. Because of this change in accounting firms, East Kentucky desires to resolve as many open issues as possible before early January, in order to ensure a timely final audit report.

**Request 2c.** If the answer to Item 2(a) of this request is a date later than the date by which East Kentucky requests a decision, explain why it seeks a Commission decision by December 17, 2008.

**Response 2c.** Please see the response to 2b.



**EAST KENTUCKY POWER COOPERATIVE, INC.**  
**PSC CASE NO. 2008-00436**  
**SUPPLEMENTAL DATA REQUEST RESPONSE**

**COMMISSION STAFF'S SUPPLEMENTAL DATA REQUEST DATED 11/10/08**  
**REQUEST 3**

**RESPONSIBLE PERSON:** Frank J. Oliva

**COMPANY:** East Kentucky Power Cooperative, Inc.

**Request 3.** Refer to East Kentucky's responses to Items 6 and 7 of the Staff's first request, which concern its Times Interest Earned Ratio ("TIER) and Debt Service Coverage ("DSC") ratio requirements for 2008.

**Request 3a.** Clarify whether it is correct that its required DSC, as measured by its Credit Facility Agreement for the best 2 of the 3 most recent calendar years (2006, 2007, and 2008), is the specific ratio that East Kentucky expects it will not achieve absent a decision in this proceeding granting its request to establish a regulatory asset.

**Response 3a.** EKPC projects that, absent a favorable decision in this proceeding, it will not achieve the minimum DSC ratio needed to meet the Credit Facility Agreement requirements in 2008.

Currently, as reflected in the response to Request 4a, EKPC's net margins are projected to be approximately \$11.8 million without the creation of a regulatory asset. At this level of margins, as indicated in the response to Request 4b, EKPC's DSC for 2008 will be .948 and EKPC's DSC for the best 2 out of 3 years for the Credit Facility will be .964. EKPC will not meet the best 2 out of 3 year test for the minimum DSC of 1.00 required in the Credit Facility covenants, and will be in default without a waiver from the lenders.

Even if EKPC can negotiate a waiver from the Credit Facility lenders, EKPC expects its costs to increase significantly. EKPC believes that there would be legal and waiver fees of approximately \$1.5-\$2 million. In addition, EKPC's current commitment fee of 17.5 basis points could double or triple. EKPC currently pays an interest rate of LIBOR plus 82.5 basis points and projects this could increase to 350-600 basis points over LIBOR.

As an example of this pricing increase, FirstEnergy Corporation is an investment-grade public utility which entered into a one-year \$300 million secured term loan facility in October 2008. According to a regulatory filing by the company, use of this credit line would require interest payments of about 600 basis points over LIBOR. According to Bloomberg, this is about 14 times the spread on a credit line the company negotiated in 2006.

**Request 3b.** Is it correct, based on the modified definition in the Credit Facility Agreement, that East Kentucky was required to deduct roughly \$33.1 million from net margins in calculating its TIER and DSC for calendar year 2007?

**Response 3b.** Yes. The \$33.1 million consisted of SO<sub>2</sub> emission allowances to be surrendered valued at \$7.1 million; NO<sub>x</sub> emission allowances to be surrendered valued at \$2.9 million; and an adjustment relating to future penalties payable to the EPA for the years 2007 through 2012 of \$23.1 million.

**Request 3c.** Provide a narrative description of the future payment obligations made in 2007 due to East Kentucky's alleged violations of the Clean Air Act with respect to the Dale Generating Station.

**Response 3c.** EKPC and the Environmental Protection Agency executed an Acid Rain Consent Decree in September 2007. Under the terms of the Acid Rain Consent Decree, EKPC must make six annual payments of \$1,900,000 (“Fixed Penalty Payment”), totaling \$11,400,000. EKPC made the first installment of this Fixed Penalty Payment in December 2007. In addition to the Fixed Penalty Payment, EKPC is subject to a Contingent Penalty Payment for a period of five years, based on audited financial statements for the years 2008 through 2012. EKPC will be subject to the Contingent Penalty Payment if certain financial ratios are achieved. At December 31, 2007, EKPC reserved \$11,700,000 for such contingent penalty payments. In December 2007, based on the terms of the Acid Rain Consent Decree, EKPC surrendered 4,107 NO<sub>x</sub> allowances and 15,311 SO<sub>2</sub> allowances.





**EAST KENTUCKY POWER COOPERATIVE, INC.  
PSC CASE NO. 2008-00436  
SUPPLEMENTAL DATA REQUEST RESPONSE**

**COMMISSION STAFF'S SUPPLEMENTAL DATA REQUEST DATED 11/10/08  
REQUEST 4**

**RESPONSIBLE PERSON: Frank J. Oliva/Ann F. Wood**

**COMPANY: East Kentucky Power Cooperative, Inc.**

**Request 4.** Refer to Exhibit AFW-2 of East Kentucky's application.

**Request 4a.** Provide an update of page 1 of 2 of the exhibit which shows East Kentucky's actual year-to-date net margins through October 2008 and its latest projected net margins for November and December of 2008.

**Response 4a.** Please page 2 of this response.

**Request 4b.** Provide an update of page 2 of 2 of the exhibit, based on the response to Item 4(a) of this request and the information available to East Kentucky at the time of its response to this request on the amounts of interest expense, principal, and depreciation expense East Kentucky expects to incur in 2008.

**Response 4b.** Please see page 3 of this response.

**EAST KENTUCKY POWER COOPERATIVE  
PROJECTED NET MARGIN SCHEDULE--2008**

|   |                      |
|---|----------------------|
| 2008 YTD Net Margin Through 10/31/2008            | \$ 10,898,565        |
| Projected Net Margin For November - December 2008 | 855,460              |
| Projected 2008 Net Margin                         | <u>\$ 11,754,025</u> |

**East Kentucky Power Cooperative, Inc.  
Projected TIER & DSC Calculations for year 2008**

Average of  
Best 2 of 3

**For 2008: Mortgage Agreement and Credit Agreement**

**TIER**

|                                 |                    |   |
|---------------------------------|--------------------|---|
| (a) Net Margins                 | 11,754,000         |   |
| (b) Interest on Long Term Debt  | 110,426,000        |   |
| <b>TIER = (a) + (b) / (b) =</b> | <u>122,180,000</u> | / |

|                    |         |
|--------------------|---------|
| Mortgage Agreement |         |
| Credit Agreement   |         |
|                    | 1.270 ✓ |
|                    | 1.119 ✓ |

110,426,000 = 1.106

**DSC**

|                                      |              |
|--------------------------------------|--------------|
| (a) Depreciation                     | 41,352,000   |
| (b) Interest on L-T Debt             | 110,426,000  |
| (c) Margins                          | 11,754,000   |
| (d) Interest + Principal             | 172,433,000  |
| <b>DSC = (a) + (b) + (c) / (d) =</b> | <b>0.948</b> |

|                    |         |
|--------------------|---------|
| Mortgage Agreement |         |
| Credit Agreement   |         |
|                    | 1.066 ✓ |
|                    | 0.964   |