EAST KENTUCKY POWER COOPERATIVE

RECEIVED

DEC 11 2008

PUBLIC SERVICE COMMISSION

December 11, 2008

HAND DELIVERED

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

Re: PSC Case No. 2008-00436

Dear Ms. Stumbo:

Please find enclosed for filing with the Commission in the above-referenced case an original and seven copies of the responses of East Kentucky Power Cooperative, Inc. ("EKPC"), to the Commission Staff's Third Data Request dated December 5, 2008

Very truly yours,

David A. Smart
General Counsel

Enclosures

Cc: Parties of Record

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

Tel. (859) 744-4812
Fax: (859) 744-6008
http://www.ekpc.coop

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 REGULATORY ASSET RELATED TO CERTAIN REPLACEMENT POWER COSTS RESULTING FROM GENERATION FORCED OUTAGES	))))))	**CASE NO. 2008-00436**

CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Frank J. Oliva being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff Third Data Request in the above-referenced case dated December 5, 2008, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

Frank J. Oliva

Subscribed and sworn before me on this 10th day of December, 2008.

Peggy S. Duffin
Notary Public

My Commission expires: December 8, 2009

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 Third Data Request in the above-referenced case dated December 5, 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 10th day of December, 2008.

Peggy S. Duffin
Notary Public

My Commission expires: December 8, 2009

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	)	

RESPONSES TO COMMISSION STAFF'S THIRD DATA REQUEST
TO EAST KENTUCKY POWER COOPERATIVE, INC
DATED DECEMBER 5, 2008

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2008-00436

THIRD DATA REQUEST RESPONSE

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/05/08

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 Staff's supplemental data request of November 10, 2008 ("Staff's second request"). Provide an update of the response which includes the same information for any forced outages on East Kentucky's system since October 31, 2008.

Response 1. East Kentucky experienced no forced outages in November. The response to Item 1 of Commission Staff's supplemental data request of November 10, 2008 provides the updated 2008 forced outage information.

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

COMMISSION STAFF'S THIRD DATA REQUEST DATED 12/05/08
REQUEST 2
RESPONSIBLE PERSON: Frank J. Oliva/Ann F. Wood
COMPANY: East Kentucky Power Cooperative, Inc.

Request 2. Refer to East Kentucky's response to Item 4 of the Staffs second request and page 1 of 2 of Exhibit AFW-2 of East Kentucky's application. The exhibit showed actual net margins of $8.4 million through August 31, 2008 and projected net margins of $8.4 million for September 2008 through December 2008, for a total of $16.8 million in net margins for calendar year 2008, without a regulatory asset. The response to Item 4 shows actual net margins of $10.9 million through October 31, 2008 and projected net margins of $855,460 for November 2008 and December 2008, for a total of $11.8 million in net margins for calendar year 2008, without a regulatory asset.

Request 2a. Provide a detailed description of what caused September's and October's actual net margins to be $2.5 million, which apparently, is much lower than had been projected for those two months. Explain also whether the amount of $855,460 projected for November and December has changed from the amount included in the September through December projection in the application.

Response 2a. In East Kentucky's original application, the net margins for September 2008 and October 2008 were projected to be $9,420,000. The actual total net margins for these two months was $2,466,000, approximately $6,954,000 less than projected.

This variance consists primarily of the following items:

	Increase (Decrease) In Net Margins
Revenue over projection	$ 893,000
Fuel over projection	($9,436,000)
Purchased Power over projection	($2,586,000)
Production Maintenance under projection	$3,636,000
Other Maintenance Costs over projection	($ 549,000)
Depreciation under projection	$ 745,000
Interest on Long-Term Debt under projection	$ 118,000
AFUDC over projection	$ 175,000
	($7,004,000)

In East Kentucky's original application, the net margins for November 2008 and December 2008 were projected to be $998,609. In response to Item 4 of the Staff's Second Data Request, the total net margins for these two months was projected to be $855,460. This variation from the original estimate was due to minor revisions in depreciation estimates and the EPA contingent penalty accrual estimate.

Request 2b. East Kentucky has stated that it will require net margins of roughly $22 million in 2008 to meet the Debt Service Coverage requirement of its Private Credit Facility. Provide any preliminary results of East Kentucky's operations showing its net margins for November 2008.

Response 2b. East Kentucky's net margins for November 2008 are estimated to be $9.5 million, which brings the year-to-date net margins to approximately $20.5 million. East Kentucky projects a $7.5 million deficit for December 2008. This

December deficit would yield 2008 net margins of approximately $13 million, well below the $22 million needed to meet the Debt Service Coverage (DSC) requirement in the Credit Facility Agreement.

Request 2c. East Kentucky's actual unrecovered forced outage costs through October of 2008 are $12.3 million while the response to Item 4 shows projected net margins for 2008 of $11.8 million. Based on these amounts, if East Kentucky is permitted to create a regulatory asset equal to its unrecovered forced outage costs, its net margins for 2008 will be approximately $24.1 million. Describe any contingency plans East Kentucky has prepared to defer, reduce or eliminate expenses in December in the event its November and December net margins are such that its ability to achieve net margins of $22 million for the calendar year appears to be in jeopardy, even with the creation of the requested regulatory asset.

Response 2c. As indicated in the Direct Testimony of Robert M. Marshall in Case No. 2008-00409, East Kentucky has implemented cost containment initiatives which include: reduction in the defined benefit plan level, increase in employee medical plan contributions, elimination of salary increases in 2007, improvements in the competitive bidding process, materials standardization, and improvements in power plant efficiencies. East Kentucky has deferred a computer software upgrade. East Kentucky has also been able to defer non-emergency maintenance projects at its power plants.

By late summer of 2008, East Kentucky recognized the distinct possibility that it would not meet the minimum DSC required by its $650,000,000 Credit Facility compliance covenants. East Kentucky at that time made additional cost reductions. As shown in response to Item 2(a), production maintenance expense was under projection by $3,636,000 for the months of September and October 2008. East Kentucky is attempting to reduce production maintenance in November and December by a like amount. However, even if East Kentucky is able to accomplish this goal, it is doubtful that East Kentucky can achieve enough savings in December to allow it to meet its debt covenant requirements. Because the majority of utility costs are fixed costs, it is difficult to make additional significant cost reductions in a short period, without affecting reliability. As discussed in the Direct Testimony of Ann F. Wood in this case, failure to meet these covenant requirements poses dire consequences for East Kentucky.

Absent the creation of the requested regulatory asset, East Kentucky expects its borrowing costs to increase significantly. East Kentucky believes that there would be legal and waiver fees of approximately \$1,500,000 - \$2,000,000. In addition, East Kentucky's current Credit Facility loan commitment fee of 17.5 basis points could double or triple. East Kentucky currently pays an interest rate on the facility of LIBOR plus 82.5 basis points and projects this could increase to 350-600 basis points over LIBOR.

Without the relief created by the establishment of the requested regulatory asset, East Kentucky has virtually no chance of meeting the DSC ratio covenant in the Credit Facility Agreement. Should this occur, the effects on East Kentucky's continued financial health could be very damaging and would pose serious problems for its member cooperatives.