East Kentucky Power Cooperative, Inc.

Case No. 2010-00167
Fully Forecasted Test Period Filing Requirements
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Volume	Tab	Filing Requirement	Description	Sponsoring Witness(es)
1	1	807 KAR 5:001 Section 10(1)(b)(1)	A statement of the reason the adjustment is required.	Anthony S. Campbell Frank J. Oliva
1	2	807 KAR 5:001 Section 10(1)(b)(2)	A statement that the utility's annual reports, including the annual report for the most recent calendar year, are on file with the commission in accordance with 807 KAR 5:006, Section 3(1).	Ann F. Wood
1	3	807 KAR 5:001 Section 10(1) (b)(3) and (5)	If the utility is incorporated, a certified copy of the utility's articles of incorporation and all amendments thereto or out of state documents of similar import. If the utility's articles of incorporation and amendments have already been filed with the Commission in a prior proceeding, the application may state this fact making reference to the style and case number of the prior proceeding <u>and</u> a certificate of good standing or certificate of authorization dated within sixty (60) days of the date the application is filed.	Ann F. Wood
1	4	807 KAR 5:001 Section 10(1)(b)(4) and (5)	If applicant is a limited partnership, a certified copy of the limited partnership agreement <u>or</u> if the agreement was filed with the PSC in a prior proceeding, a reference to the style and case number of the prior proceeding <u>and</u> a certificate of good standing or certificate of authorization dated within sixty (60) days of the date the application is filed.	Ann F. Wood
1	5	807 KAR 5:001 Section 10(1)(b)(6)	A certified copy of a certificate of assumed name as required by KRS 365.015 or a statement that such a certificate is not necessary.	Ann F. Wood
1	6	807 KAR 5:001 Section 10(1)(b)(7)	The proposed tariff in form complying with 807 KAR 5:011 with an effective date not less than thirty (30) days from the date the application is filed.	Isaac S. Scott
1	7	807 KAR 5:001 Section 10(1)(b)(8)	Proposed tariff changes shown either by providing present and proposed tariffs in comparative form or indicating additions by italicized inserts or underscoring and striking over deletions in a copy of the current tariff.	Isaac S. Scott
1	8	807 KAR 5:001 Section 10(1)(b)(9)	Statement that notice given, see subsections (3) and (4) of 807 KAR 5:001, Section 10 with copy.	Ann F. Wood
1	9	807 KAR 5:001 Section 10(2)	If gross annual revenues exceed $1,000,000 written notice of intent filed at least four (4) weeks prior to application. Notice shall state whether the application will be supported by historical or a fully forecasted test period.	Ann F. Wood
1	10	807 KAR 5:001 Section 10 (3)	Form of notice to customers. Every utility filing an application pursuant to this section shall notify all affected customers in the manner prescribed herein. The notice shall include the following information: (a) Amount of change requested in dollar amounts and percentage for each customer classification to which change will apply.	Ann F. Wood

Volume	Tab	Filing Requirement	Description	Sponsoring Witness(es)
			(b) Present and proposed rates for each customer class to which change would apply. (c) Electric, gas, water and sewer utilities - the effect upon average bill for each customer class to which change will apply. (d) Local exchange companies - include effect upon average bill for each customer class for change in basic local service. (e) A statement that the rates contained in this notice are the rates proposed by (name of utility); however, the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice; (f) A Statement that any corporation, association, or person with a substantial interest in the matter may, by written request, within thirty (30) days after publication or mailing of this notice of the proposed rate changes request to intervene; Intervention may be granted beyond the thirty (30) day period for good cause shown. (g) A statement that any person who has been granted intervention by the commission may obtain copies of the rate application and any other filings made by the utility by contacting the utility through a name and address and phone number stated in this notice; (h) A statement that any person may examine the rate application and any other filings made by the utility at the main office of the utility or at the commission's office indicating the addresses and telephone numbers of both the utility and the commission; and (i) The commission may grant a utility with annual gross revenues greater than $1,000,000, upon written request, permission to use an abbreviated form of published notice of the proposed rates provided the notice includes a coupon which may be used to obtain all of the information required herein.	
1	11	807 KAR 5:001 Section 10(4)(a)	Manner of notification. Sewer utilities shall give the required typewritten notice by mail to all of their customers pursuant to KRS 278.185.	Ann F. Wood
1	12	807 KAR 5:001 Section 10(4)(b)	Manner of notification. Applicant has 20 customers or less, written notice of proposed rate changes and estimated amount of increase per customer class shall be mailed to each customer no later than date of application.	Ann F. Wood
1	13	807 KAR 5:001 Section 10(4)(c)	Except for sewer utilities, applicants with more than twenty (20) customers affected by the proposed general rate adjustment shall give the required notice by one (1) of the following methods: 1. A typewritten notice mailed to all customers no later than the date the application is filed with the commission; 2. Publishing the notice in a	Ann F. Wood

Volume	Tab	Filing Requirement	Description	Sponsoring Witness(es)
			trade publication of newsletter which is mailed to all customers no later than the date on which the application is filed with the commission; or 3. Publishing the notice once a week for three (3) weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made within seven (7) days of the filing of the application with the Commission.	
1	14	807 KAR 5:001 Section 10(4)(d)	If the notice is published, an affidavit from the publisher verifying the notice was published, including the dates of the publication with an attached copy of the published notice, shall be filed with the commission no later than forty-five (45) days of the filed date of the application.	Ann F. Wood
1	15	807 KAR 5:001 Section 10(4)(e)	If the notice is mailed, a written statement signed by the utility's chief officer in charge of Kentucky operations verifying the notice was mailed shall be filed with the commission no later than thirty (30) days of the filed date of the application.	Ann F. Wood
1	16	807 KAR 5:001 Section 10(4)(f)	All utilities, in addition to the above notification, shall post a sample copy of the required notification at their place of business no later than the date on which the application is filed which shall remain posted until the commission has finally determined the utility's rates.	Ann F. Wood
1	17	807 KAR 5:001 Section 10(4)(g)	Compliance with this subsection shall constitute compliance with 807 KAR 5:051, Section 2.	Ann F. Wood
1	18	807 KAR 5:001 Section 10 (5)	Notice of hearing scheduled by the commission upon application by a utility for a general adjustment in rates shall be advertised by the utility by newspaper publication in the areas that will be affected in compliance with KRS 424.300	Ann F. Wood
1	19	807 KAR 5:001 Section 10 (8)(a)	Financial data for forecasted period presented as pro forma adjustments to base period.	Frank J. Oliva Ann F. Wood
1	20	807 KAR 5:001 Section 10 (8)(b)	Forecasted adjustments shall be limited to the 12 months immediately following the suspension period.	Ann F. Wood
1	21	807 KAR 5:001 Section 10 (8)(c)	Capitalization and net investment rate base shall be based on a 13 month average for the forecasted period.	Ann F. Wood
1	22	807 KAR 5:001 Section 10 (8)(f)	The utility shall provide a reconciliation of the rate base and capital used to determine its revenue requirements.	Ann F. Wood
2	23	807 KAR 5:001 Section 10(9)(a)	Prepared testimony of each witness supporting its application including testimony from chief officer in charge of Kentucky operations on the existing programs to achieve improvements in efficiency and productivity, including an explanation of the purpose of the program.	Ann F. Wood
3	24	807 KAR 5:001 Section 10(9)(b)	Most recent capital construction budget containing at minimum 3 year forecast of construction expenditures.	John R. Twitchell Craig A. Johnson

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				Ricky L. Drury
3	25	807 KAR 5:001 Section 10(9)(c)	Complete description, which may be in prefiled testimony form, of all factors used to prepare forecast period. All econometric models, variables, assumptions, escalation factors, contingency provisions, and changes in activity levels shall be quantified, explained, and properly supported.	Frank J. Oliva
3	26	807 KAR 5:001 Section 10(9)(d)	Annual and monthly budget for the 12 months preceding filing date, base period and forecasted period.	Frank J. Oliva
3	27	807 KAR 5:001 Section 10(9) (e)	Attestation signed by utility's chief officer in charge of Kentucky operations providing: 1. That forecast is reasonable, reliable, made in good faith and that all basic assumptions used have been identified and justified; and 2. That forecast contains same assumptions and methodologies used in forecast prepared for use by management, or an identification and explanation for any differences; and 3. That productivity and efficiency gains are included in the forecast;	Anthony S. Campbell
3	28	807 KAR 5:001 Section 10(9)(f)	For each major construction project constituting 5% or more of annual construction budget within 3 year forecast, following information shall be filed: 1. Date project began or estimated starting date; 2. Estimated completion date; 3. Total estimated cost of construction by year exclusive and inclusive of Allowance for Funds Used During Construction ("AFUDC") or Interest During Construction Credit; and 4. Most recent available total costs incurred exclusive and inclusive of AFUDC or Interest During Construction Credit;	John R. Twitchell
3	29	807 KAR 5:001 Section 10(9)(g)	For all construction projects constituting less than 5% of annual construction budget within 3 year forecast, file aggregate of information requested in paragraph (f) 3 and 4 of this subsection;	John R. Twitchell Craig A. Johnson Ricky L. Drury
3	30	807 KAR 5:001 Section 10(9)(h)	Financial forecast for each of 3 forecasted years included in capital construction budget supported by underlying assumptions made in projecting results of operations and including the following information: 1. Operating income statement (exclusive of dividends per share or earnings per share); 2. Balance sheet;	John R. Twitchell Frank J. Oliva Ann F. Wood

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Volume	Tab	Filing Requirement	Description	Sponsoring Witness(es)
			3. Statement of cash flows; 4. Revenue requirements necessary to support the forecasted rate of return; 5. Load forecast including energy and demand (electric); 6. Access line forecast (telephone); 7. Mix of generation (electric); 8. Mix of gas supply (gas); 9. Employee level; 10. Labor cost changes; 11. Capital structure requirements; 12. Rate base; 13. Gallons of water projected to be sold (water); 14. Customer forecast (gas, water); 15. MCF sales forecasts (gas); 16. Toll and access forecast of number of calls and number of minutes (telephone); and 17. A detailed explanation of any other information provided.	
3	31	807 KAR 5:001 Section 10(9)(i)	Most recent FERC or FCC audit reports;	Ann F. Wood
3	32	807 KAR 5:001 Section 10(9)(j)	Prospectuses of most recent stock or bond offerings;	Ann F. Wood
3	33	807 KAR 5:001 Section 10(9)(k)	Most recent FERC Form 1 (electric), FERC Form 2 (gas), or the Automated Reporting Management Information System Report (telephone) and PSC Form T (telephone);	Ann F. Wood
4	34	807 KAR 5:001 Section 10(9)(l)	Annual report to shareholders or members and statistical supplements for the most recent 5 years prior to application filing date;	Ann F. Wood
5	35	807 KAR 5:001 Section 10(9)(m)	Current chart of accounts if more detailed than Uniform System of Accounts chart;	Ann F. Wood
5	36	807 KAR 5:001 Section 10(9)(n)	Latest 12 months of the monthly managerial reports providing financial results of operations in comparison to forecast;	Ann F. Wood
5	37	807 KAR 5:001 Section 10(9)(o)	Complete monthly budget variance reports, with narrative explanations, for the 12 months prior to base period, each month of base period, and subsequent months, as available;	Frank J. Oliva

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Volume	Tab	Filing Requirement	Description	Sponsoring Witness(es)
5	38	807 KAR 5:001 Section 10(9)(p)	SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued during prior 2 years and any Form 10-Qs issued during past 6 quarters;	Ann F. Wood
5	39	807 KAR 5:001 Section 10(9)(q)	Independent auditor's annual opinion report, with any written communication which indicates the existence of a material weakness in internal controls;	Ann F. Wood
5	40	807 KAR 5:001 Section 10(9)(r)	Quarterly reports to the stockholders for the most recent 5 quarters;	Ann F. Wood
5	41	807 KAR 5:001 Section 10(9)(s)	Summary of latest depreciation study with schedules itemized by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall identify current and base period depreciation rates used by major plant accounts. If information has been filed in another PSC case, refer to that case's number and style.	Ann F. Wood
5	42	807 KAR 5:001 Section 10(9)(t)	List all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with application. Include each software, program, or model; its use; identify the supplier of each; briefly describe software, program, or model; specifications for computer hardware and operating system required to run program.	Ann F. Wood
5	43	807 KAR 5:001 Section 10(9)(u)	If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the base period or during the previous three (3) calendar years, the utility shall file: 1. Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each allocation or payment; 2. Method and amounts allocated during base period and method and estimated amounts to be allocated during forecasted test period; 3. Explain how allocator for both base and forecasted test period was determined; and 4. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during base period is reasonable.	Ann F. Wood
5	44	807 KAR 5:001 Section 10(9)(v)	If gas, electric or water utility with annual gross revenues greater than $5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from single time period.	Dennis Eicher

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Filing Requirement
807 KAR 5:001 Section 10(9)(l)
Sponsoring Witness: Ann F. Wood

Description of Filing Requirement:

Annual report to shareholders or members and statistical supplements for the most recent 5 years prior to application filing date;

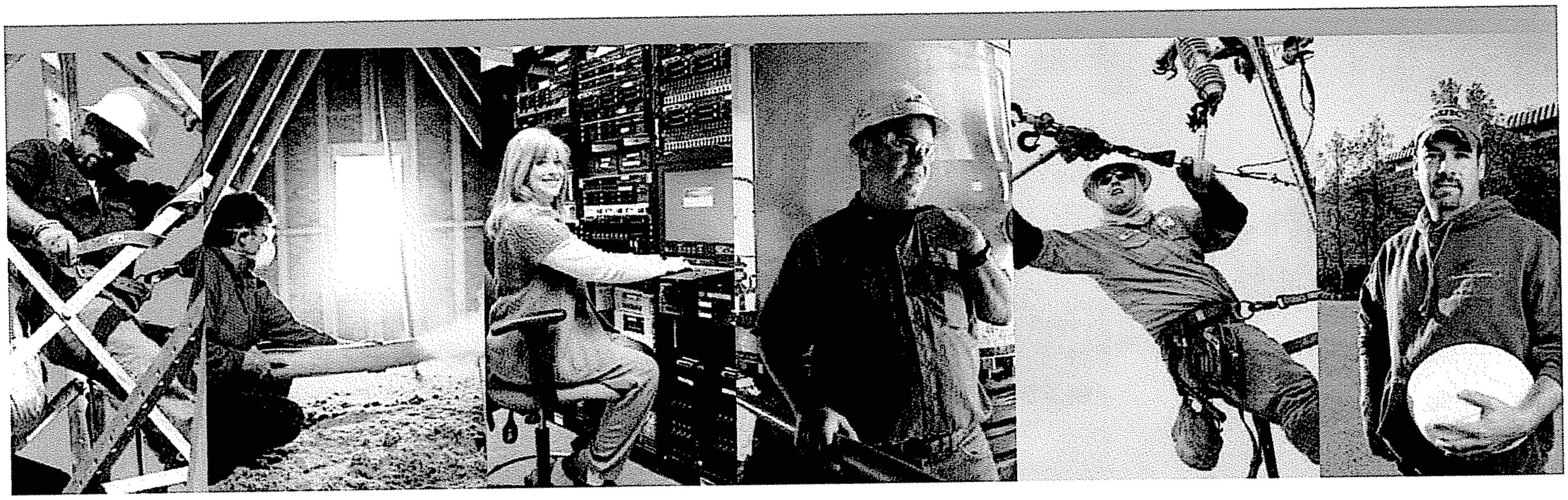
Response:

EKPC's Annual Reports for 2005, 2006, 2007, 2008 and 2009 are attached.

East Kentucky Power Cooperative, Inc.

2009 Annual Report

2009 ANNUAL REPORT



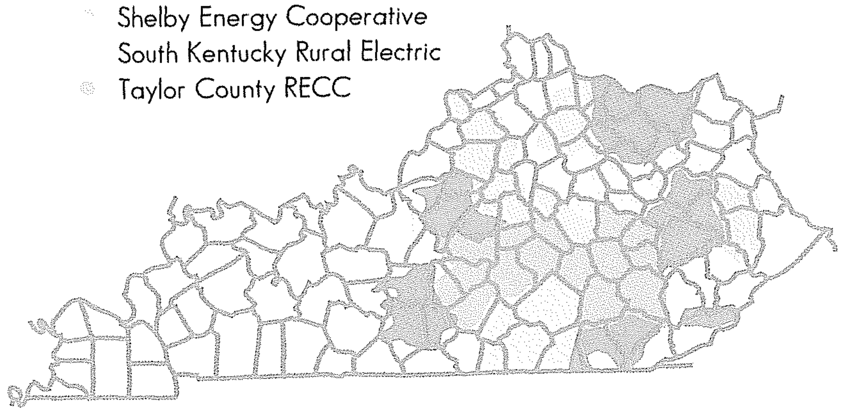
people
committed to supplying affordable, reliable power

EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy® Cooperative

Sixteen distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	1,346 net MW
2	Dale	195 net MW
3	Smith Combustion Turbine Units	Summer 786 net MW Winter 1,016 net MW
4	Cooper	341 net MW

Landfill Gas Plants

5	Bavarian	3.0 net MW
6	Laurel Ridge	3.8 net MW
7	Green Valley	2.3 net MW
8	Pearl Hollow	2.3 net MW
9	Pendleton	3.0 net MW
10	Mason	1.5 net MW

Southeastern Power Adm. (SEPA), hydro power 170 MW

EAST KENTUCKY POWER COOPERATIVE

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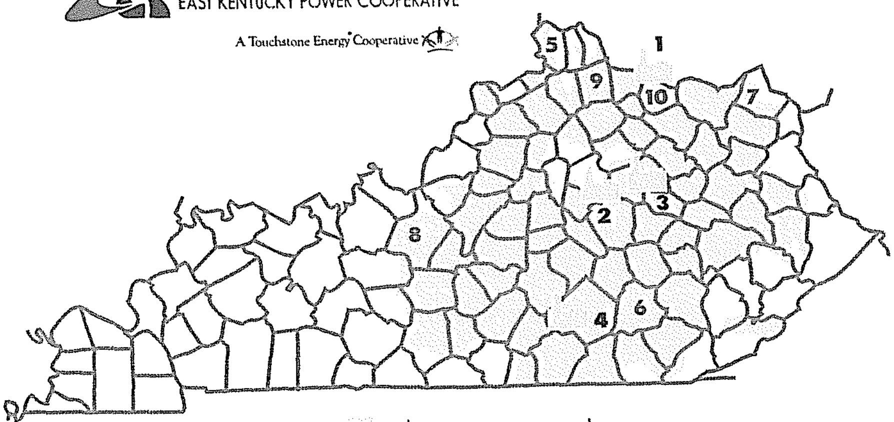

shows system-wide service area

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EAST KENTUCKY POWER COOPERATIVE

Financial Highlights (Dollars in Thousands)

	2009	2008	% Increase/Decrease
Operating Revenue	**$773,089**	$795,172	-2.78
Operating Expenses	**$632,973**	$686,748	-7.83
Net Margin	**$30,569**	$27,872	9.68
Fuel Expenses for Generation	**$294,840**	$302,978	-2.69
Purchased Power Cost	**$94,595**	$164,896	-42.63
Interest Cost	**$113,355**	$109,876	3.17
Members' Equities	**$219,131**	$190,372	15.11
Construction Expenditures	**$211,455**	$388,050	-45.51
Assets	**$2,981,466**	$2,822,052	5.65
Sales to Member Cooperatives (MWh)	**12,239,535**	12,842,385	-4.69
System Peak Demand (MW)			
Winter Season	**2,872** *	3,149	-8.80
Summer Season	**2,175**	2,265	-3.97
Number of Member System Consumers	**519,081**	518,364	0.14

* set January 8, 2010

Five-Year Statistical Summary

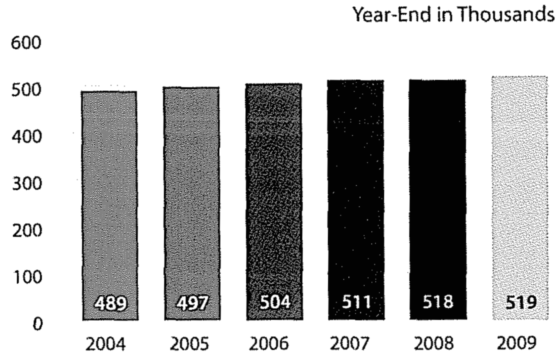
	2009	2008	2007	2006	2005
Net Margin (Deficit) - in thousands	$30,569	$27,872	$44,493	$11,174	($46,007)
TIER	1.27	1.25	1.43	1.13	0.34
DSC	1.11	1.04	1.17	0.98	0.66
Fuel Expense - (in thousands)	$294,840	$302,978	$293,756	$278,210	$263,434
Construction Expenditures - in thousands					
Generation	$158,194	$303,928	$387,816	$222,722	$131,756
Transmission	$51,620	$84,038	$33,802	$62,638	$26,987
General	$1,641	$84	$191	$5,103	$3,864
Investment In Facilities - in thousands					
Original Cost	$3,466,591	$3,251,029	$2,925,546	$2,482,319	$2,192,259
Long-Term Debt - in thousands	$2,531,261	$2,385,919	$1,955,039	$1,643,305	$1,339,263
Total Assets - in thousands	$2,981,466	$2,822,052	$2,363,931	$2,030,092	$1,687,894
Number of Employees - full-time	661	645	620	620	635
Cost of Coal Purchased					
$/ton	$56.39	$60.78	$51.06	$55.82	$49.95
$/MBtu	$2.45	$2.62	$2.17	$2.35	$2.09
Amount of Coal Purchased - tons	5,100,539	4,638,788	4,788,727	4,788,437	4,559,035
Generation - MWh	10,925,246	10,670,423	11,493,588	11,197,632	11,105,626
System Peak Demand - MW					
Winter Season	2,872	3,149	3,033	2,859	2,642
Summer Season	2,175	2,265	2,487	2,339	2,227
Sales to Other Utilities - MWh	341,261	115,608	154,743	77,010	144,197
Member Load Growth - %					
Energy	(4.69)	(0.07)	5.8	(1.9)	4.7
Demand	(2.52)	0.40	5.3	1.3	6.2
Load Factor - %	44	48	51	50	52
Miles of Line	2,794	2,755	2,704	2,673	2,663
Installed Capacity - kVA	9,367,911	9,282,666	9,066,866	9,010,066	8,919,666
Distribution Substations	348	342	333	321	311

ˉast Kentucky . ower Cooperative

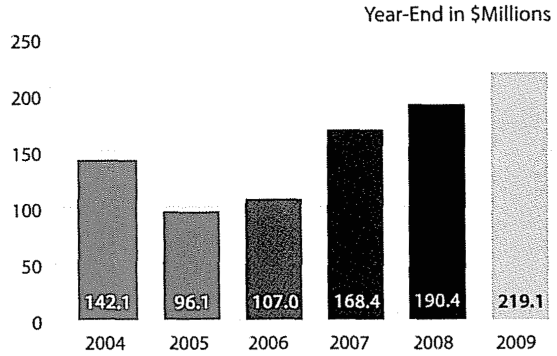
East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Kentucky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving 519,081 Kentucky homes, farms, businesses and industries across 87 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.

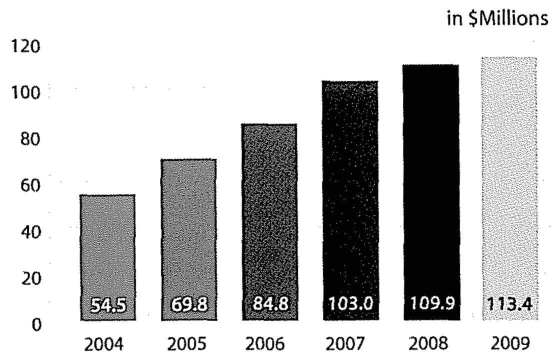
Member Consumer Meters



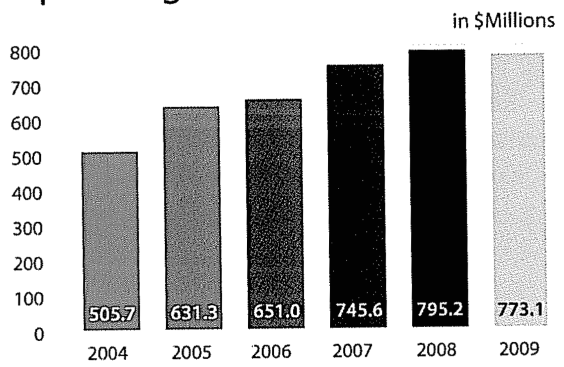
Members' Equities



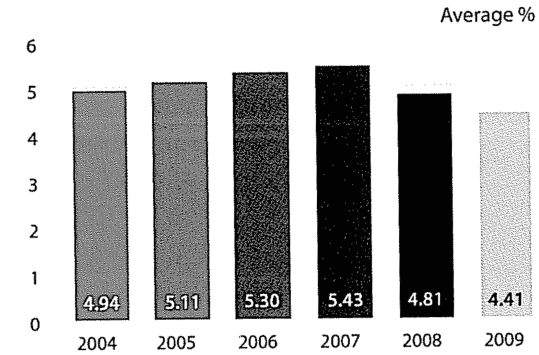
Interest Cost



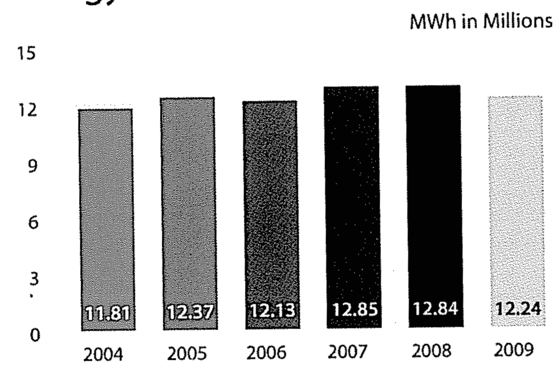
Operating Revenue



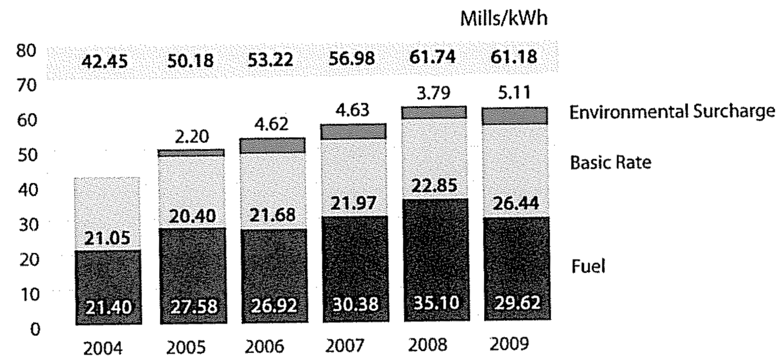
Average Interest Rate on Long-Term Debt Year-End



Energy Sales to Members



Power Cost to Members



2009: Preparing for the Future

During the past year, EKPC's board and management continued to focus on improving the cooperative's financial strength while putting additional resources in place. Our ongoing goal is to provide electricity as affordably and reliably as possible to our 16 member cooperatives and the more than 500,000 homes, farms and businesses they serve.

Members' equity continued to improve in 2009 as EKPC recorded positive margins for the fourth year in a row. EKPC posted a net margin of $30.57 million, up 9.68% from 2008. Our cooperative also met all its financial obligations.

In April, Spurlock Unit #4 came on-line at Spurlock Station in Maysville. The unit uses cutting-edge circulating fluidized bed (CFB) technology that results in extremely low emission levels.

EKPC completed construction of two new "peaking" units at J.K. Smith Station at Trapp. Those units, fueled by natural gas, provide power during periods of very high demand for electricity.

We strengthened our transmission system to ensure reliable delivery of power to our member cooperatives. Notably, EKPC completed construction of the 36-mile, 345-kilovolt Smith-West Garrard transmission line, which will have the capacity to deliver the power generated by the two new peaking units and Smith Unit #1.

EKPC also continued exploring alternative ways to affordably and reliably serve our members. We added our sixth plant fueled by methane from landfills. The newest plant is in Maysville. We worked with the University of Kentucky to explore Kentucky-grown switch-grass as a supplemental low-emission fuel for our power plants. And we helped manage demand growth through energy efficiency. Today, our efficiency programs yield nearly 185 megawatts of energy savings, the equivalent of a small power plant.

We focused on the cooperative's future resource needs, too. EKPC's generating capacity lags behind our members' energy demands, but our proposed Smith Unit #1 at Smith Station will help us close that gap. Like its sister units at Spurlock Station, Smith Unit #1 will feature extremely low emissions. In 2009, EKPC worked toward obtaining the permits necessary to complete planned construction of the unit in 2014.

We also geared up to add emissions-control equipment to one of the units at Cooper Station in Burnside so that plant can meet more stringent environmental requirements.

Smith Unit #1 and the Cooper Station scrubber project represent a total investment of more than $1.1 billion to help us meet the ever-growing demand for electricity while safe-guarding the environment. Together, these two projects will create up to 1,100 construction jobs and about 70 permanent jobs.

Anthony L Campbell

Anthony Campbell
President and CEO

In 2009, EKPC's board and management worked with the Kentucky Public Service Commission (PSC) and its consultant to complete a comprehensive audit of the cooperative's governance and management. We are committed to working with the PSC to do what is necessary to bring about meaningful and comprehensive change in the board and management of EKPC. Already, we have taken a number of steps in response. The board has engaged a consultant to comprehensively assess and enhance governance policies. And EKPC is launching a fresh strategic planning initiative. This will be a long-term effort to fundamentally change and improve our cooperative.

Meanwhile, we understand our members feel pressured by the rising costs of electricity. We sympathize, because we feel those same pressures, as individuals who pay our own home utility bills and as those who provide electricity to others.

We must prepare for the future. We're investing more money and making needed changes because we care about our members.

EKPC began in 1941, after friends and neighbors in rural Kentucky formed not-for-profit cooperatives to bring electricity to farms and isolated communities. Those co-ops banded together to create EKPC as a source for the power they needed.

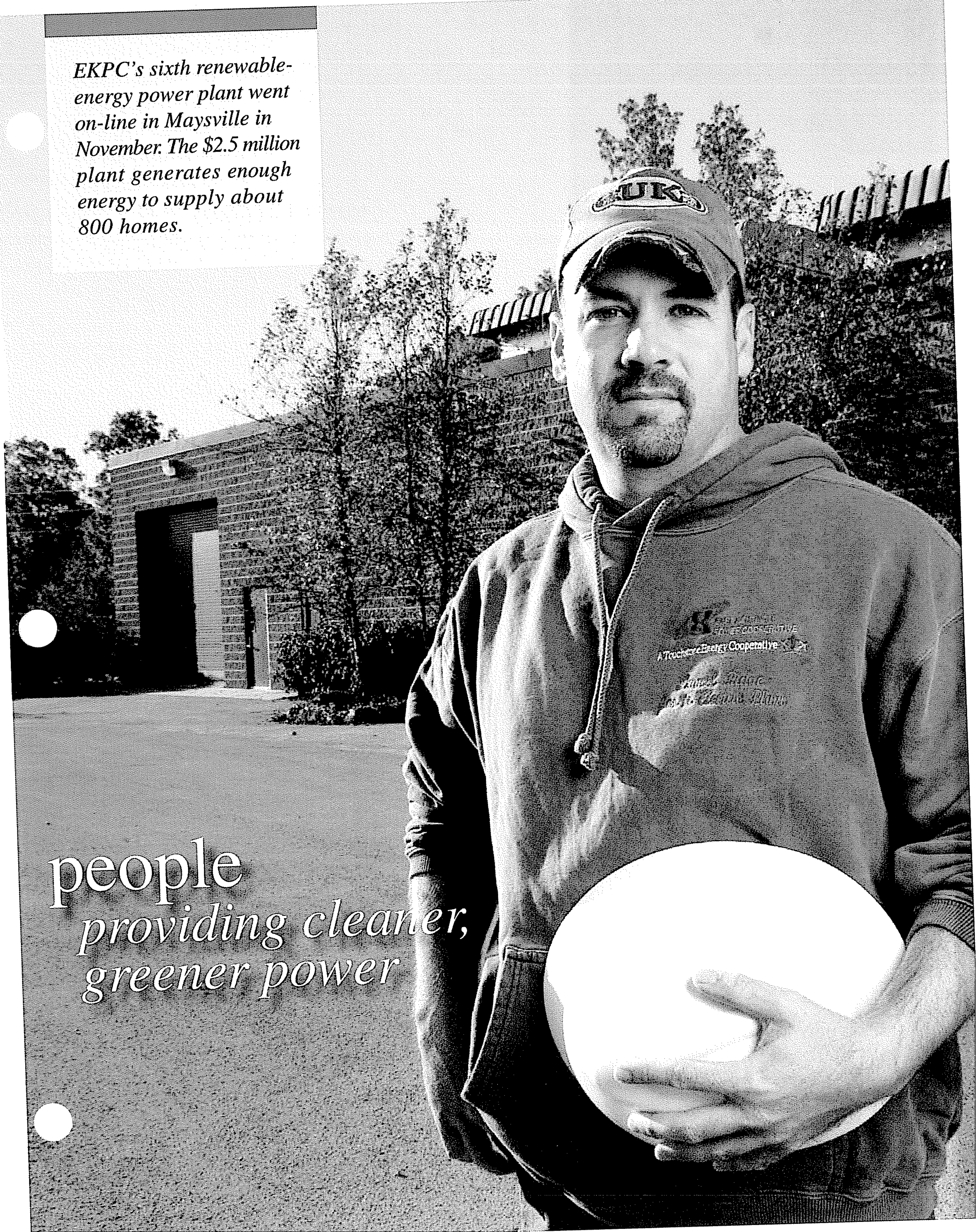
Almost 70 years later, our purpose is the same. We're not here to earn a profit—we remain a not-for-profit organization. We're here to provide safe, reliable electricity to our neighbors at reasonable prices, while also protecting the air, land and water we all share.

We continue to listen to members' concerns and to keep them aware of the issues such as carbon legislation that will have an impact on them.

We're here to improve lives and to serve our member co-ops.

Wayne Stratton
Chairman of the Board

EKPC's sixth renewable-energy power plant went on-line in Maysville in November. The $2.5 million plant generates enough energy to supply about 800 homes.



people
providing cleaner, greener power

2009: Year in Review

Major events

Spurlock Station Unit #4 goes online

One of America's cleanest coal-generating units began commercial operation in April 2009 at H.L. Spurlock Station in Maysville. The 268-megawatt unit cost $528 million. Over the three-year life of the project, building the unit created up to 700 construction jobs and added $78.2 million in wages for construction workers to the economy of Mason County and the surrounding region.

The unit uses a circulating fluidized bed technology that results in extremely low emission levels. It will generate more than $9 million in estimated property taxes for the state of Kentucky during its first 20 years of operation.

Tony Campbell takes the helm as president and CEO

In May, Anthony "Tony" Campbell was named president and chief executive officer of EKPC. His appointment became effective June 8. Campbell came to EKPC from Citizens Electric Corporation in Missouri, where he had been CEO since 2003. He succeeds former CEO Bob Marshall, who retired.

Ice storm paralyzes the state

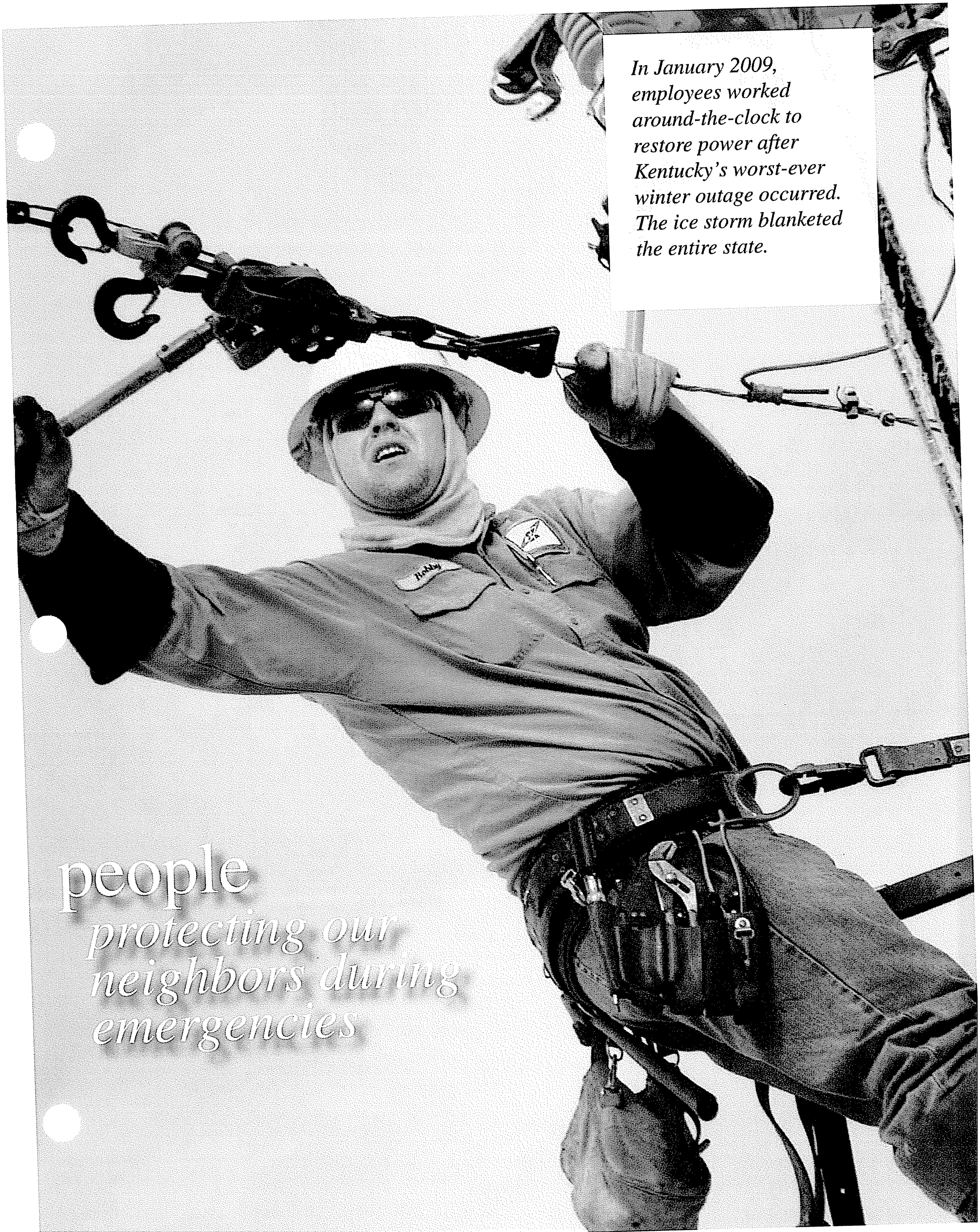
In January, the worst outage disaster ever occurred for Kentucky's electric cooperatives: the ice storm of 2009. An estimated 180,000 consumers of EKPC's member systems lost power; they were among 700,000 electric customers statewide whose power was out. EKPC experienced more than 80 substation outages and more than 30 transmission line outages. Crews worked around-the-clock to repair the damage.

Regulators approve a rate increase

In March, the Kentucky PSC approved a settlement of EKPC's request to increase rates, and the new rates became effective April 1. The decision increased the average monthly residential power bill by about 7 percent. The increase was necessary for EKPC to recover costs associated with Spurlock Unit #4 and to meet financial obligations.

Second scrubber is installed at Spurlock Station

In the summer of 2009, EKPC began operating a flue-gas desulfurization "scrubber" on Spurlock Unit #1. The scrubber removes 95 percent of the sulfur from the unit's emissions. Similar equipment began operating on Spurlock Unit #2 in the fall of 2008.



In January 2009, employees worked around-the-clock to restore power after Kentucky's worst-ever winter outage occurred. The ice storm blanketed the entire state.

people

protecting our neighbors during emergencies

Business Evolving project is unveiled

In May 2009, EKPC announced its Business Evolving project, a new approach to doing business that is designed to improve the effectiveness and efficiency of EKPC's processes. Business Evolving is enabling employees to leverage state-of-the-art computer software to streamline various internal and external transactions.

Other power generation developments

Division of Air Quality issues draft air permit for Smith Unit #1

In January 2010, Kentucky's Division of Air Quality issued a draft air permit for EKPC's proposed Smith Unit #1. In April 2010, the U.S. Army Corps of Engineers issued a draft supplemental environmental impact statement on the project for public review. Both developments were important steps forward in EKPC's attempt to build the $819 million, 278-megawatt, coal-fueled Smith unit, which it hopes to bring online in 2014. EKPC's generating capacity currently lags behind the demand for electricity among the cooperative's 16 member systems.

Two new CT units brought online at Smith Station

Combustion Turbine Units #9 and #10 at Smith Station were synchronized to the grid in early 2010. The two units can each generate 100 megawatts of capacity and will be used primarily during the hottest and coldest months of the year.

Millions invested for emission control at Cooper Station

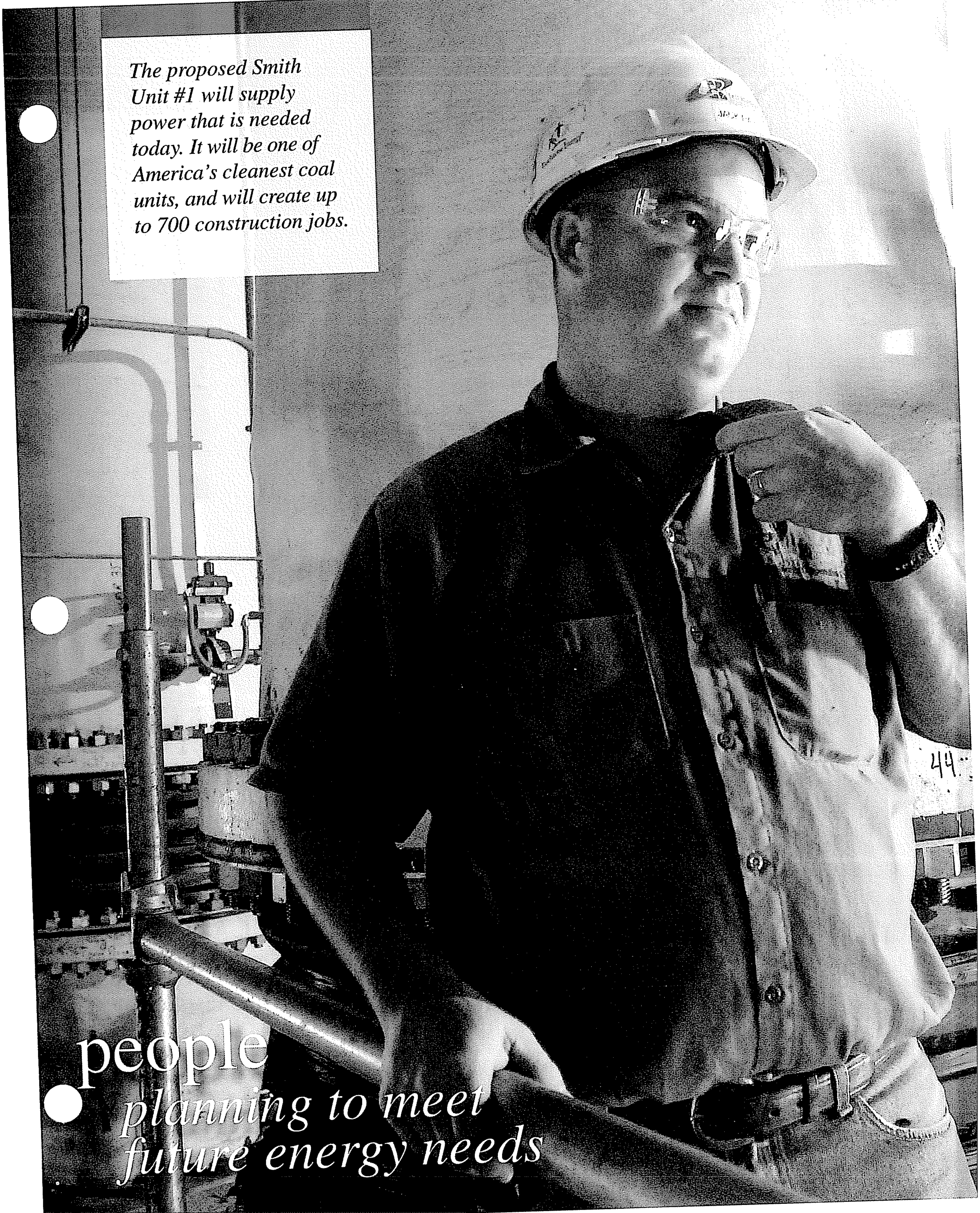
EKPC continued preparing to install state-of-the-art, emission-reduction equipment at Cooper Station. The $324 million investment on Cooper Unit #2 includes a flue-gas desulfurization unit, or "scrubber," which will remove 95 percent of the sulfur dioxide from emissions. It also includes a selective catalytic reduction device and a pulse jet fabric filter to drastically lower emissions of nitrogen oxide and particulate matter. Construction will begin in summer 2010; the equipment will become operational in 2012.

Power transmission

Smith-West Garrard transmission line is energized

The critical Smith-West Garrard transmission line was energized in late November. This was one of the largest line projects ever tackled by EKPC. Adding the 36-mile, 345-kilovolt line across Clark, Garrard and Madison counties was a milestone for EKPC's transmission system and is critical for EKPC to continue providing reliable service to member systems.

The Spurlock-to-Avon radial 345-kV line that EKPC has operated for years is now connected to the grid both to the north out of Spurlock and to the south through this new line. The project was completed on schedule despite the devastating 2009 ice storm. EKPC has been working on the project since the Kentucky PSC approved it in fall 2007.



The proposed Smith Unit #1 will supply power that is needed today. It will be one of America's cleanest coal units, and will create up to 700 construction jobs.

people

planning to meet future energy needs

Corporate Services

EKPC joins with WKYT-TV Channel 27 to improve weather information

In 2009, EKPC became the exclusive sponsor of the new FirstAlert DEFENDER Doppler weather radar system installed by Lexington's WKYT-TV, Channel 27. The new 1 million-watt radar features dual-polarity technology that allows WKYT's meteorologists to detect, analyze, depict and warn of more kinds of dangerous weather than any other radar system. WKYT, along with its sister station, WYMT in Hazard, reaches most of the EKPC service territory through cable, satellite and broadcast networks.

By forming this partnership, EKPC is providing members with the best available weather, energy-efficiency and safety information, all the while building the brand of Kentucky's Touchstone Energy Cooperatives through daily television and WKYT web site promotions. The WKYT web site provides links to energy information bulletins that explain how retail members can correct the most common energy-efficiency problems found in homes.

Co-ops launch project to weatherize low-income homes

Between February and June 2009, EKPC and several member co-ops joined with state government agencies in a new pilot program to reduce electric demand and consumption in 51 low-income homes. EKPC and the member co-ops worked alongside Community Action Agencies to help make life better for our neighbors. The average cost per home was $1,937, of which EKPC paid 75 percent and member co-ops paid 25 percent.

Together We Save helps consumers make homes energy-efficient

Launched in August, Together We Save is a national ad campaign and energy efficiency program for the 700-plus Touchstone Energy Cooperatives, including EKPC and its member cooperatives. The campaign encourages consumers to make easy home repairs and change their habits in order to save energy and money. It also points them to an interactive web site where they can take an energy-savings home tour. By the end of 2009, visitors to the web site had identified over $6 million in possible savings.

SimpleSaver reaches 10,000 switches

By the end of 2009, EKPC's direct-load-control program, SimpleSaver, had recorded the installation of 10,265 switches, surpassing its goal of 10,000 for the year. The SimpleSaver program allows EKPC to manage customers' water heater and air conditioning units during periods of peak demand, thereby reducing load. SimpleSaver has a five-year goal of 50,000 switches.

We continue to promote many energy-saving programs that really work for Kentucky homes, farms and businesses. Kentucky's Touchstone Energy Cooperatives have given members more than 574,000 CFL bulbs since 2003.

people
educating Kentuckians about energy efficiency

Environmental developments at power plants

Sixth renewable plant goes on-line

EKPC's sixth renewable power plant went on-line in Maysville in November. The plant, located at the Maysville-Mason County Landfill, is fueled by methane, a waste gas that is produced as organic waste decomposes in the landfill. The $2.5 million plant generates enough electricity to supply about 800 homes. EKPC was the first utility in Kentucky to build renewable power plants, and is generating more green energy than any other utility in the state. Eight percent of EKPC's capacity comes from renewable sources.

Switchgrass experiments move forward

EKPC continues to conduct an ongoing experiment with the biofuel switchgrass that began in 2007. Switchgrass, a warm-season grass native to Kentucky and grown by Kentucky farmers, can be mixed with coal and burned in Spurlock Station's two newest circulating fluidized bed generators. About 265 tons of the grass were compressed into pellets and burned with coal in the latest tests, which took place early in 2010.

Other developments

EKPC undergoes audit of governance and management

In 2008, the Kentucky PSC ordered a comprehensive audit of EKPC's governance and management. The PSC said the audit should focus particularly on the role of the Board of Directors in strategic planning, decision-making and management.

The Liberty Consulting Group was hired by the PSC to conduct the audit, and began requesting data and conducting interviews in May 2009. In November, Liberty reviewed preliminary recommendations with the board. In early 2010, EKPC received Liberty's final recommendations and is working together with the PSC to make swift and meaningful improvements in governance and management.

people committed to our communities

More than $1 million in scholarship funds have been provided to seniors from Kentucky's smallest high schools in the past 20 years through the Touchstone Energy All "A" Classic.

EXECUTIVE STAFF

Coordinates strategic initiatives with day-to-day operations to further the goals of the company.

Stacy Barker
Corporate Services

Jim Lamb
Power Supply

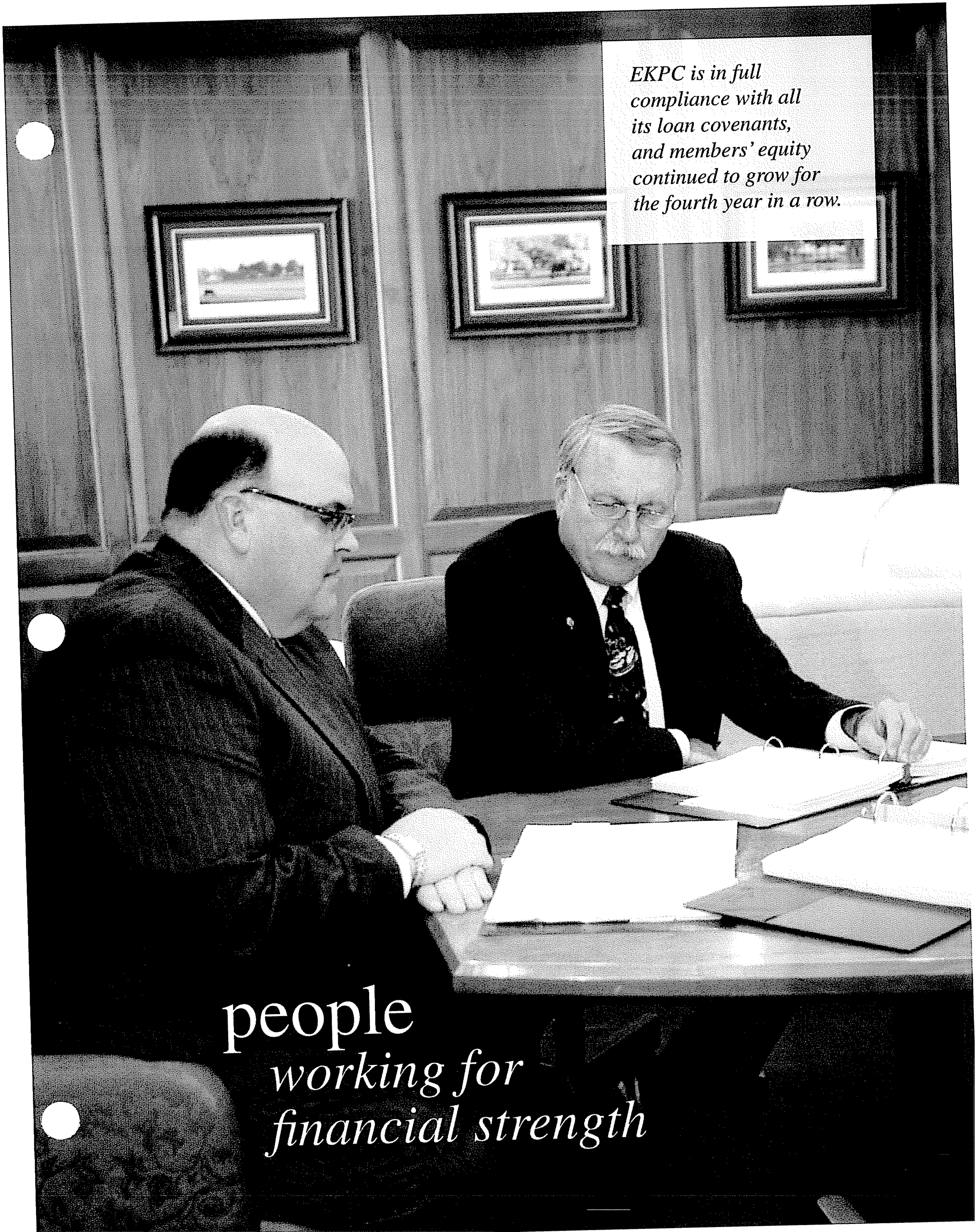
Dave Eames
Finance

John Twitchell
Power Delivery and Construction

David Smart
Legal

Craig Johnson
Power Production

Denver York
System Operations



EKPC is in full compliance with all its loan covenants, and members' equity continued to grow for the fourth year in a row.

people *working for financial strength*

2009: Financial Highlights

Results of Operations

Operating revenues for the 12 months ended December 31, 2009 decreased approximately $22.1 million compared to the same period in 2008. As a result of mild weather throughout 2009, megawatt-hour (MWh) sales to members decreased 4.7% from 2008. In 2009, demand and energy revenue to members decreased $44.1 million from 2008. On October 31, 2008, EKPC filed its application in Case No. 2008-00409 for a general adjustment of its wholesale electric rates using a fully forecasted test year. The PSC granted intervention to the Attorney General (AG) and Kentucky Industrial Utility Customers (KIUC). EKPC, the AG, and KIUC reached a negotiated settlement in this proceeding. The Settlement Agreement includes an annual revenue increase of $59.5 million effective for service rendered on and after April 1, 2009. The Settlement Agreement was approved by the PSC on March 31, 2009. The PSC allows electric utilities to recover fuel and purchased power costs through a fuel adjustment clause and to recover Federal Clean Air Act compliance costs through an environmental surcharge. For 2009, fuel adjustment clause revenue decreased $113.2 million due to an increase in the fuel basing point effective for the August 2009 billing, and environmental surcharge revenue increased $13.7 million in 2009 compared with 2008.

In January 2006, EKPC received a Notice of Violation (NOV) from the U.S. Environmental Protection Agency (EPA) alleging technical violations of the Clean Air Act Acid Rain program, and provisions of the NOx State Implementation Plan at Dale Units #1 and #2. The issue for both units involved whether these units were subject to regulations as generators having a "nameplate" capacity greater than 25 megawatts and/or were generators used to generate 25 megawatts or more of electricity. EKPC and the EPA executed a consent decree in which EKPC agreed to make six annual payments of $1.9 million in fixed penalties, the third of which was paid in December 2009. EKPC is subject to a contingent penalty payment if certain annual financial ratios are achieved in years 2008 through 2012. For 2009, this penalty was $3.2 million. EKPC also surrendered certain NOx and SO2 allowances.

Production Operating Expense, which includes fuel, other production and purchased power, are categories that should be considered together for comparative purposes. On an hour-to-hour basis, EKPC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economic source. Because of the weather conditions throughout 2009, EKPC ran its combustion turbines for peaking purposes. Natural gas usage in 2009 decreased $4.0 million from 2008. EKPC's coal costs decreased as a result of mild weather in 2009. In 2009, fuel costs decreased $8.1 million from 2008. Because peak demand sometimes exceeds EKPC's available capacity, EKPC must purchase power to meet member needs. Purchased power costs for 2009 decreased $70.3 million from 2008 due to mild weather and the addition of generation from Spurlock Unit #4.

Our Business Evolving project is a new approach to business that enables employees to leverage state-of-the-art computer software to improve the efficiency and effectiveness of our work.

people
improving workplace performance

Generation of Power

EKPC has coal-fired generating facilities at Dale Station in Clark County, Cooper Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units is supplemented during peak times by combustion turbines at Smith Station in Clark County. EKPC's generating facilities produced 10.9 million mega-watt-hours in 2009, compared with 10.7 million MWh in 2008.

EKPC's power stations burned 4.78 million tons of coal in 2009, compared with 4.65 million tons in 2008. The cost of coal burned during 2009 was $2.52 per million Btu, or $57.35 per ton. The cost of coal purchased during 2009 was $2.45 per million Btu or $56.39 per ton.

The combustion turbines at Smith Station consumed 624,090 gallons of oil with a cost of $1.02 per gallon or $7.33 per million Btu. The combustion turbines also consumed 2.7 million MCF of natural gas with a cost of $6.26 per MCF.

Interest Costs

Gross interest expense was $113.3 million. The prime rate was 3.25 percent throughout 2009. During the year, Federal Financing Bank (FFB) interest rates for long-term advances decreased from 4.33 to 3.43 percent.

Of the total $2.6 billion debt outstanding, current fixed interest rates range from a low of 2.72 percent to a high of 10.66 percent for 2009. The average annual rate on long-term debt decreased from 4.81% in 2008 to 4.41% in 2009.

Virtually all of EKPC's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $73.5 million of pollution control and solid waste disposal revenue bonds is being kept in the variable rate mode. This rate averaged 2.65 % for 2009.

FUEL & POWER SUPPLY COMMITTEE

Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS

Jackson Energy

Fred
Brown

Farmers RECC

Paul
Hawkins

Big Sandy RECC

Wade
May

Grayson RECC

Bill
Rice

Fleming-Mason
Energy

Vice-Chairman

Lonnie
Vice

SYSTEM MANAGERS

South Kentucky
Rural Electric

Allen
Anderson

Clark Energy

Paul
Embs

Salt River Electric

Larry
Hicks

Shelby Energy

Debbie
Martin

Taylor County RECC

Barry
Myers

OPERATIONS, SERVICES & SUPPORT COMMITTEE

Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs and other corporate functions.

BOARD MEMBERS

Licking Valley RECC

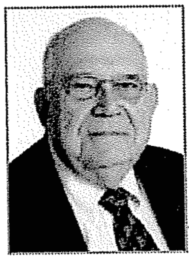
Mike
Adams

Inter-County Energy

Daniel
Divine

South Kentucky
Rural Electric

Tom
Estes



Blue Grass Energy

E. A.
Gilbert

Nolin RECC

Secretary-Treasurer

A. L.
Rosenberger

Taylor County RECC

Don
Shuffett

SYSTEM MANAGERS

Grayson RECC

Carol
Fraley

Cumberland Valley
Electric

Ted
Hampton

Fleming-Mason
Energy

Chris
Perry

Jackson Energy

Don
Schaefer

Owen Electric

Mark
Stallons

POWER DELIVERY COMMITTEE

Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

BOARD MEMBERS

Elbert Hampton

Cumberland Valley Electric

Hope Kinman

Owen Electric

Jimmy Longmire

Salt River Electric

Bill Shearer

Clark Energy

Wayne Stratton

Shelby Energy

Chaiman

SYSTEM MANAGERS

Dan Brewer

Blue Grass Energy

Kerry Howard

Licking Valley RECC

Jim Jacobus

Inter-County Energy

Mickey Miller

Nolin RECC

Bill Prather

Farmers RECC

Bobby Sexton

Big Sandy RECC

AUDIT COMMITTEE

Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS

Farmers RECC

Paul
Hawkins

Clark Energy

Bill
Shearer

SYSTEM MANAGERS

Salt River Electric

Larry
Hicks

Fleming-Mason Energy

Chris
Perry

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Deloitte & Touche LLP, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Deloitte & Touche LLP and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Deloitte & Touche LLP has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Anthony L. Campbell

Anthony Campbell
President and CEO

David G. Eames

David G. Eames
Chief Financial Officer

Deloitte.

Deloitte & Touche LLP
111 Monument Circle
Suite 2000
Indianapolis, IN 46204-5120
USA

Tel: +1 317 464 8600
Fax: +1 317 464 8500
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Audit Committee
East Kentucky Power Cooperative, Inc. and Subsidiary:

We have audited the accompanying consolidated balance sheets of East Kentucky Power Cooperative, Inc. and subsidiary (the "Cooperative") as of December 31, 2009 and 2008, and the related consolidated statements of revenues and expenses, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2010, on our consideration of East Kentucky Power Cooperative, Inc. and subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the 2009 and 2008 basic consolidated financial statements taken as a whole. The supplementary consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. This supplementary information is the responsibility of the Cooperative's management. The supplementary 2009 and 2008 consolidating information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

April 2, 2010

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
ASSETS		
ELECTRIC PLANT — At original cost:		
In-service	$3,083,748	$2,119,372
Construction in progress	382,843	1,131,657
	3,466,591	3,251,029
LESS ACCUMULATED DEPRECIATION	837,259	780,846
Electric plant — net	2,629,332	2,470,183
LONG-TERM ACCOUNTS RECEIVABLE	3,352	4,564
INVESTMENT SECURITIES:		
Available for sale	47,611	47,343
Held to maturity	8,683	15,472
CURRENT ASSETS:		
Cash and cash equivalents	51,552	54,305
Accounts receivable	79,582	85,273
Fuel	70,815	55,976
Materials and supplies	42,951	41,664
Regulatory asset	9,152	1,774
Emission allowances	10,919	20,750
Other	3,025	2,854
Total current assets	267,996	262,596
REGULATORY ASSET	9,782	12,301
DEFERRED CHARGES	7,893	2,970
OTHER	6,817	6,623
TOTAL	$2,981,466	$2,822,052
LIABILITIES AND MEMBERS' EQUITIES		
MEMBERS' EQUITIES	$ 219,131	$ 190,372
LONG-TERM DEBT — Excluding current portion	2,531,261	2,385,919
CURRENT LIABILITIES:		
Current portion of long-term debt	75,794	71,517
Accounts payable	70,097	88,050
Current portion of regulatory liability	-	4,060
Accrued expenses	15,433	19,798
Total current liabilities	161,324	183,425
ACCRUED POSTRETIREMENT BENEFIT COST	46,382	42,302
OTHER	23,368	20,034
TOTAL	$2,981,466	$2,822,052

See notes to consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
OPERATING REVENUE	$ 773,089	$ 795,172
OPERATING EXPENSES:		
Production:		
Fuel	294,840	302,978
Other	117,565	115,536
Purchased power	94,595	164,896
Transmission and distribution	31,520	34,064
Depreciation	60,549	41,197
General and administrative	33,904	28,077
	632,973	686,748
OPERATING MARGIN	140,116	108,424
NONOPERATING DEFICIT:		
Interest expense	(113,355)	(109,876)
Interest income	3,615	5,385
Allowance for interest on borrowed funds used during construction	4,884	28,885
Lawsuit settlements	(4,938)	(5,424)
Miscellaneous	(17)	333
	(109,811)	(80,697)
CAPITAL CREDITS AND PATRONAGE CAPITAL ALLOCATIONS	264	145
NET MARGIN	$ 30,569	$ 27,872

See notes to consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income	Total Members' Equities
BALANCE — January 1, 2008	$ 2	$149,143	$3,035	$12,622	$164,802
Comprehensive income:					
Net margin	-	27,872	-	-	27,872
Unrealized losses on investments available for sale	-	-	-	(102)	(102)
Postretirement benefit obligation	-	-	-	(2,200)	(2,200)
Total comprehensive income	-	-	-	-	25,570
BALANCE — December 31, 2008	2	177,015	3,035	10,320	190,372
Comprehensive income:					
Net margin	-	30,569	-	-	30,569
Unrealized losses on investments available for sale	-	-	-	(385)	(385)
Postretirement benefit obligation	-	-	-	(1,425)	(1,425)
Total comprehensive income	-	-	-	-	28,759
BALANCE — December 31, 2009	$ 2	$207,584	$3,035	$ 8,510	$219,131

See notes to consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 30,569	$ 27,872
Adjustments to reconcile net margin to net cash from operating activities:		
Depreciation	60,549	41,197
Amortization of loan costs	2,806	2,861
Changes in:		
Accounts receivable	5,691	(16,964)
Fuel	(13,775)	(10,116)
Materials and supplies	(1,475)	(2,162)
Emission allowances	9,831	6,536
Accounts payable — trade	1,618	(9,185)
Accrued expenses	(4,365)	8,659
Accrued postretirement benefit cost	2,655	1,185
Other	(4,760)	(7,635)
Regulatory asset	(8,919)	(6,352)
Net cash provided by operating activities	80,425	35,896
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric plant	(240,145)	(432,457)
Maturities and calls of securities available for sale	58,907	354
Purchases of securities available for sale	(59,560)	(1,248)
Maturities of securities held to maturity	14,316	21
Purchases of securities held to maturity	(7,527)	(7,298)
Payments received on long-term accounts receivable	1,212	1,117
Net cash used in investing activities	(232,797)	(439,511)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	801,209	503,502
Principal payments on long-term debt	(651,590)	(62,242)
Net cash provided by financing activities	149,619	441,260
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,753)	37,645
CASH AND CASH EQUIVALENTS — Beginning of year	54,305	16,660
CASH AND CASH EQUIVALENTS — End of year	$ 51,552	$ 54,305

(Continued)

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest	$ 116,943	$ 109,531
NONCASH OPERATING TRANSACTION:		
Fuel included in accounts payable	$ 25,213	$ 24,149
Materials and supplies included in accounts payable	$ 931	$ 1,119
NONCASH INVESTING TRANSACTION:		
Additions to electric plant included in accounts payable	$ 12,958	$ 33,405
Unrealized losses on securities available for sale	$ (385)	$ (102)

See notes to consolidated financial statements.

(Concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations — East Kentucky Power Cooperative (the Cooperative) is a not-for-profit electric generation and transmission cooperative providing wholesale electric service to 16 distribution members mainly for residential consumers in central and eastern Kentucky.

The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting — The consolidated financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America (GAAP) in all material respects. As a rate regulated entity, the Cooperative's financial statements reflect actions of regulators that result in the recording of revenues and expenses in different time periods than enterprises that are not rate regulated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980-10, *Regulated Operations* (formerly FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*).

Electric Plant and Maintenance — Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction. On March 31, 2009, the Cooperative requested and the PSC approved that the Cooperative should no longer record Allowance for Interest on Borrowed Funds Used During Construction.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Inventories — Inventories of fuel and materials and supplies are valued at the lower of average cost or market.

Emission Allowances — Title IV of the Clean Air Act Amendments of 1990 provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants. Allowances are stated at cost. Issuances of allowances are recognized using a monthly weighted-average method of cost determination. Gains and losses are recorded upon the disposition of allowances.

Depreciation — Depreciation for the generating plants and transmission facilities is provided on the basis of estimated useful lives at straight-line composite rates. Rates applied to electric plant in service for both 2009 and 2008 are:

Production plant	Years 2019–2049
Transmission and distribution plant	0.71%–3.42%
General plant	2.00%–20.00%

Investment Securities — Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity. Investment securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is not temporary.

Allowance for Interest on Borrowed Funds Used During Construction — In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000. Effective March 31, 2009, the PSC allowed the Cooperative to receive a cash return on Construction Work in Progress (CWIP); therefore, the practice of accruing any Allowance for Interest on Borrowed Funds Used During Construction ceased. Thus, the consolidated statements of revenue and expenses only reflects three months for 2009 and a full year for 2008 of the Allowance for Interest on Borrowed Funds Used During Construction.

Fair Value of Financial Instruments — The carrying amount of cash and cash equivalents, receivables and certain other current liabilities approximates fair value due to the short maturity of the instruments. The Cooperative uses fair value to measure certain financial instruments, with related unrealized gains or losses generally affecting future recoverable costs. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Observable inputs or unobservable inputs, defined by ASC Topic 820-10, *Fair Value Measurements and Disclosures* (formerly FASB Statement No. 157, *Fair Value Measurements*), may be used in the calculation of fair value. ASC Topic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The inputs used to measure cash equivalents are level 1 measurements, as the money market funds are exchange traded funds in an active market. The inputs used to measure the available for sale and held to maturity investment securities are level 1 measurements, as the securities are based on quoted market prices for the same or similar investments.

At December 31, 2009 and 2008, the carrying value and the estimated fair values of the Cooperative's cash, cash equivalents and investments were as follows (dollars in thousands):

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 51,552	$ 51,552	$ 54,305	$ 54,305
Investment securities:				
Available for sale	47,611	47,611	47,343	47,343
Held to maturity	8,683	8,013	15,472	19,463

The Cooperative adopted ASC Topic 820 (previously FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*) for all non-financial assets and liabilities in 2009. The adoption did not have a material impact on the Cooperatives's financial position, results of operations, or cash flows.

Rate Matters — Revenue is recorded monthly based on meter readings made at month-end.

The PSC has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales.

The PSC has an environmental cost recovery mechanism that allows utilities to recover certain costs incurred in complying with the Federal Clean Air Act. This environmental surcharge is being billed on a percentage of revenue basis.

In October 2008, the Cooperative submitted an application to the PSC requesting a rate increase of approximately $68,000,000 annually. On March 31, 2009, the PSC approved a settlement reached among the Cooperative and the interveners which will yield a $59,500,000 increase in annual revenue. This rate increase is effective for service rendered on and after April 1, 2009.

Concentration of Credit Risk — Credit risk represents the risk of loss that would occur if suppliers or customers did not meet their contractual obligations to EKPC. Concentration of credit risk occurs when significant suppliers or customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

The Cooperative's sales are primarily to its member cooperatives and amounted to approximately $748,815,000 and $792,906,000 for 2009 and 2008, respectively. Accounts receivable at December 31, 2009 and 2008, were primarily from billings to member cooperatives.

At December 31, 2009 and 2008, individual account balances that exceeded 10% of total accounts receivable are as follows (dollars in thousands):

	2009	2008
Owen Electric Cooperative	$ 10,545	$ 9,536
South Kentucky RECC	8,697	9,083
Blue Grass Energy Cooperative	7,930	8,540

Cash and Cash Equivalents — The Cooperative considers temporary investments having a maturity of three months or less when purchased to be cash equivalents.

At December 31, 2009 the Cooperative had $304,411 of cash on deposit at one bank, which is in excess of federally insured limits.

Estimates in the Financial Statements — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Asset Impairment — Long-lived assets held and used by the Cooperative are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Specifically, the evaluation for impairment involves comparison of an asset's carrying value to the estimated undiscounted cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded as a charge to operations based on the difference between the asset's carrying amount and its fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2009 or 2008.

Members' Equities — Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members. In addition, any available capital credits will also be allocated to members on a contribution-to-gross margins basis.

A provision in the Cooperative's bylaws prohibits the return of capital contributed by patrons unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 40% of total assets. In addition, provisions of certain loan agreements prohibit the retirement of capital until stipulated requirements as to liquid assets (cash and U.S. Government obligations) are met. Accordingly, at December 31, 2009 and 2008, no patronage capital was available for refunds or retirement.

Comprehensive Income — Comprehensive income includes both net margin and other comprehensive income. Other comprehensive income represents the change in unrealized gains and losses on securities available for sale as well as the change in funded status of the accumulated postretirement benefit obligation.

Income Taxes — The Cooperative is exempt under Section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85% of its gross income is derived from members but is responsible for income taxes on certain unrelated business income. ASC Topic 740-10, *Income Taxes*, (formerly FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*), clarifies the accounting for uncertainty in income taxes recognized in the financial statements. This interpretation requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. Additionally, ASC Topic 740-10 provides guidance on measurement, recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions.

Deferred Finance Charges — The Cooperative amortizes their deferred financing charges using the effective interest method.

Derivatives — The Cooperative's activities expose it to a variety of market risks including interest rates and commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on its operating results. These policies and strategies include the use of derivative instruments and hedging activities. These derivative instruments generally qualify for hedge accounting or the normal purchase and normal sales exclusion under ASC Topic 815-10, *Derivatives and Hedging* (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended). If hedge treatment is obtained, unrealized gains or losses resulting from these instruments are deferred as a component of accumulated other comprehensive income (loss) until the corresponding item being hedged is settled, at which time the gain or loss is recognized in earnings. Gains or losses for items not qualifying for hedge treatment are accounted for as regulatory assets or liabilities and recorded on the balance sheet until such time that the asset or liability is settled, at which time the gain or loss is recognized in earnings. No derivative transactions qualifying for hedge accounting treatment have been identified for the years ended December 31, 2009 or 2008.

Asset Retirement Obligations — ASC Topic 410-20, *Asset Retirement Obligations*, (formerly Statement No. 143, *Accounting for Asset Retirement Obligation*), requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset. ASC Topic 410-20 clarifies the term conditional asset retirement obligation where an obligation exists even though the method or timing of settlement may be conditional. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss. The Cooperative has certain generating plants that contain asbestos, which is required by law to be removed or contained if the plants are renovated or demolished. The Cooperative has no plans to retire any of its generating plants at this time. Because there is an indeterminate settlement date for the asset retirement obligation, the range of time over which the Cooperative may settle the obligation is unknown. Therefore, as of December 31, 2009 and 2008, the Cooperative has not recorded an asset retirement obligation because it does not have sufficient information to estimate the fair value of the asset retirement obligation.

New Accounting Standards — In June 2009, the FASB issued guidance under ASC Topic 810 (previously SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*), which amended the consolidation guidance for Variable Interest Entities (VIEs). The new guidance requires a company to perform an analysis to determine whether its variable interest gives it a controlling financial interest in a VIE. The amendment, which requires ongoing reassessments, redefines the primary beneficiary as the party that (1) has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) has the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The guidance includes enhanced disclosures about a company's involvement in a VIE and eliminates the exemption for qualifying special purpose entities. The guidance is effective for the Cooperative on January 1, 2010. The Cooperative is currently evaluating the impact, if any, on the Cooperative's financial position, results of operations, and cash flows.

2. ELECTRIC PLANT

Electric plant in-service at December 31, 2009 and 2008, consisted of the following (dollars in thousands):

	2009	2008
Production plant	$ 1,693,446	$ 1,494,325
Transmission plant	550,671	516,526
General plant	73,570	70,766
Completed construction, not classified, and other	766,061	37,755
Electric plant in service	$ 3,083,748	$ 2,119,372

3. LONG-TERM ACCOUNTS RECEIVABLE

Long-term receivables include modifications to Spurlock Power Station in order to provide steam to a paper mill that recycles container board. The paper mill is reimbursing the Cooperative for the cost of the modifications through a monthly facilities charge over the 20-year life of the contract. Long-term receivables also include interest-bearing notes from joint ventures owned by the Cooperative and four of the Cooperative's member systems for the buyout of a propane company. The joint ventures of the member systems are making principal and interest (prime rate minus one-half of one percent, adjusted annually) payments. The notes are payable in full in 2015.

4. INVESTMENT SECURITIES

Amortized cost and estimated fair value of investment securities available for sale at December 31, 2009 and 2008, are as follows (dollars in thousands):

2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	43,686	5	-	43,691
Zero Coupon Bond	2,840	-	(20)	2,820
Other	1,061	15	-	1,076
	$47,611	$ 20	$ (20)	$47,611
2008				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	42,636	98	-	42,734
Zero Coupon Bond	3,238	317	-	3,555
Other	1,061	-	(31)	1,030
	$46,959	$415	$ (31)	$47,343

Proceeds from maturities and calls of securities were $58,907,000 and $354,000 in 2009 and 2008, respectively. There were no realized gains or losses on those calls.

Amortized cost and estimated fair value of investment securities held to maturity at December 31 are as follows (dollars in thousands):

2009	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
National Rural Utilities Cooperative Finance Corporation:				
3–5% capital term certificates	$ 7,656	$ -	$ (615)	$ 7,041
6.5875% subordinated term certificate	405	95	-	500
0% subordinated term certificate	622	-	(150)	472
	$ 8,683	$ 95	$ (765)	$ 8,013
2008				
National Rural Utilities Cooperative Finance Corporation:				
3–5% capital term certificates	$ 7,656	$ 1,614	$ (10)	$ 9,260
6.5875% subordinated term certificate	425	167	-	592
0% subordinated term certificate	246	-	(45)	201
5.88% subordinated term certificate	7,145	2,265	-	9,410
	$ 15,472	$ 4,046	$ (55)	$ 19,463

The debt related to the 5.88% subordinated term certificate was paid off in 2009 (see Note 5) and the related cash was returned to the Cooperative.

Investment securities held to maturity with unrealized losses at December 31 not recognized in net margin are as follows (dollars in thousands):

	Unrealized Loss Less Than 12 Months		Unrealized Loss 12 Months or More	
2009	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
3–5% capital term certificates	$ -	$ -	$ 7,041	$ (615)
0% subordinated term certificate	-	-	472	(150)
	$ -	$ -	$ 7,513	$ (765)
2008				
3–5% capital term certificates	$ -	$ -	$ 9,260	$ (10)
0% subordinated term certificate	-	-	201	(45)
	$ -	$ -	$ 9,461	$ (55)

The maturity dates on the above securities range from 2019 to 2080 and have no available trading market. However, it is management's intent to hold these securities until maturity, at which time management expects to recover full value.

The amortized cost and fair value of securities at December 31, 2009, by contractual maturity, are shown below (dollars in thousands). Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale:		
Due in one year or less	$ 44,074	$ 44,096
Due after one year through five years	2,476	2,438
Due after ten years	1,061	1,077
	$ 47,611	$ 47,611
Held to maturity — due after ten years	$ 8,683	$ 8,013

5. LONG-TERM DEBT

Long-term debt outstanding at December 31, 2009 and 2008, consisted of the following (dollars in thousands):

	2009	2008
First mortgage notes:		
2.721%–10.657%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2040, weighted average 4.826%	$2,144,244	$1,628,513
5%, and 5.125% payable quarterly to RUS in varying amounts through 2024, weighted average 5.032%	35,984	39,660
4.55%, payable quarterly to CFC in varying amounts through 2024	8,882	16,445
Variable rate, 4.95% at December 31, 2009, payable quarterly to CFC in varying amounts through 2024	7,384	58,386
Fixed rate loan, 7.7%, payable semi-annually in varying amounts to National Cooperative Services Corporation through 2012	4,500	6,000
Pollution control bonds:		
Series 1984B, variable rate bonds, due October 15, 2014, 1.070% and 1.50% at December 31, 2009 and 2008, respectively	58,200	67,000
Series 1984J, variable rate bonds, due October 15, 2011, 2.00% and 5.25% at December 31, 2009 and 2008, respectively	7,625	11,535
Solid waste disposal revenue bonds, Series 1993B, variable rate bonds, due August 15, 2023, 3.25% and 2.00% at December 31, 2009 and 2008, respectively	7,700	8,100
Clean Renewable Energy Bonds, Fixed rate of 0.40% payable quarterly to CFC to December 1, 2023	7,536	6,797
Promissory notes:		
1.14% - 1.70% variable rate note payable to CFC in 2010	325,000	615,000
	2,607,055	2,457,436
Less current portion of long-term debt	75,794	71,517
	$2,531,261	$2,385,919

In September 2003, RUS approved a loan application in the amount of $27,645,000 for the construction of five landfill gas to energy generating units including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2009, $14,453,000 of these amounts remained to be advanced.

In May 2005, RUS approved a loan application in the amount of $55,240,000 for the construction of two additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2009, $2,240,000 of these amounts remained to be advanced.

In May 2005, the Cooperative submitted to RUS a loan application in the amount of $906,973,000 for the construction of the Smith #1 Unit and the construction of five additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. In June 2007, the Cooperative re-submitted this same loan application for the Smith #1 Unit, along with the construction of only two combustion turbines and related transmission facilities for a revised loan amount of $943,932,000. In May 2008, due to the institution by RUS of a moratorium on financing of base load generation facilities, the Cooperative once again revised this loan to only include the two combustion turbines and related transmission facilities for a revised loan amount of $276,298,000. This loan was approved by RUS in June 2008. Advances on this loan are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2009, $137,298,000 of these amounts remained to be advanced.

In August 2005, RUS approved a loan application in the amount of $64,240,000 for the construction of various transmission projects. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2009, $15,340,000 of these amounts remained to be advanced.

In September 2005, the Cooperative entered into an unsecured credit facility syndicate with the co-arrangers of CFC and the Bank of Tokyo-Mitsubishi. This loan was approved for a total of $650,000,000 for general operating expenses and capital construction projects. As of December 31, 2009, $325,000,000 of this amount remained to be advanced. The Cooperative has secured long-term financing through RUS, of which future proceeds will be utilized to pay the outstanding balances.

In March 2006, RUS approved a loan application in the amount of $481,388,000 for the construction of the Unit #4 at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2009, $3,492,000 of these amounts remained to be advanced.

In May 2007, the Cooperative submitted to RUS a loan application in the amount of $457,510,000 for the engineering and construction of a new scrubber on the Spurlock Unit #1 and the replacement of the existing scrubber on the Spurlock Unit #2. This loan was approved by RUS in June 2008. Advances on this loan are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2009, $91,510,000 of these amounts remained to be advanced.

In May 2008, the Cooperative submitted to RUS a loan application in the amount of $96,147,000 for various generation projects. This loan amount was revised in July 2008 to $108,147,000. This loan was approved by RUS in August 2008. Advances on this loan are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2009, $98,147,000 of these amounts remained to be advanced.

In July 2008, the Cooperative submitted to RUS a loan application in the amount of $152,716,000 for various transmission projects. This loan was revised in July 2008 to $140,716,000 and has not been cleared by RUS for advance of funds.

In March 2009, the Cooperative submitted to RUS a loan application for $341,000,000 for construction of the Cooper Station Retrofit Air Pollution Project. This loan has not been cleared by RUS for advance of funds.

In September 2005, the Cooperative submitted to CFC a loan application in the amount of $275,000,000 for the front-end financing for the engineering and construction of five combustion turbines to be located at the J.K. Smith Plant Site. CFC approved this loan in November 2005. In September 2007, the loan amount was amended to $180,000,000 as a result of a decision to decrease the number of combustion turbines to be purchased for the facility to two. The loan was paid in full in November 2009.

In February 2007, the Cooperative was approved to receive funds up to an amount of $20,986,000 to finance certain qualified renewable energy projects, specifically landfill gas to energy projects with Clean Renewable Energy Bonds ("CREBS"). This total amount was revised to $8,613,000 in January 2008. Advances on this loan are subject to certain conditions outlined by CFC and the non-governmental portions of such loans are subject to authorization from the PSC. The loan was fully advanced in July 2009.

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5% per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act. As of December 31, 2009 and 2008, the Cooperative's cushion of credit account balance was $4,819,000 and $478,832, respectively.

The interest rate on the Series 1984B Pollution Control Bonds is subject to change weekly and the interest rate on the Series 1984J Pollution Control Bonds and the Series 1993B Solid Waste Disposal Revenue Bonds are subject to change semiannually. The interest rate adjustment period on any series of the above-mentioned variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis or to a fixed-rate basis, at the option of the Cooperative.

Long-term pollution control and solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds. Debt service reserve requirements are as follows: Series 1984B — $12,717,000; Series 1984J — $5,368,000; and Series 1993B — $1,062,000. In addition, mandatory sinking fund payments are required for each series as follows: Series 1984B — payments range from $9,700,000 in 2010 to $13,150,000 in 2013; Series 1984J — payments range from $4,325,000 in 2010 to $3,300,000 in 2011; and Series 1993B — payments range from $400,000 in 2010 to $700,000 in 2023. Debt service reserve and construction funds are held by trustees and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in investment securities available for sale and have a fair value of approximately $22,129,000 at December 31, 2009.

Estimated maturities of long-term debt for the five years subsequent to December 31, 2009, are as follows: 2010 — $75,794,000; 2011 — $89,007,000; 2012 — $85,447,000; 2013 — $84,112,000; 2014 — $83,629,000; and thereafter — $2,189,066,000.

Under the terms of the loan agreements with RUS, CFC and institutional investors, the Cooperative is required to maintain certain levels of members' equities, interest coverage, and debt service coverage, all of which were met at December 31, 2009.

Substantially all assets are pledged as collateral for first mortgage notes payable to the United States of America (RUS and FFB) and CFC.

As of December 31, 2009, the Cooperative has $3,100,000 outstanding in a letter of credit with the Commonwealth of Kentucky for Worker's Compensation.

As of December 31, 2009, the Cooperative has pledged securities of $2,000,000 with the United States Department of Labor for Federal Longshore Harbor Workers and the Commonwealth of Kentucky.

6. RETIREMENT BENEFITS

Pension Plan — Pension benefits for employees hired prior to January 1, 2007, are provided through participation in the National Rural Electric Cooperative Association's Retirement and Security Program, a multi-employer defined benefit plan. The Cooperative's required contributions were approximately $7,384,000 and $6,592,000 for 2009 and 2008, respectively. The Cooperative expects to contribute approximately $10,005,000 to the plan in 2010.

Effective January 1, 2008, the Cooperative revised its defined benefit plan by reducing the benefit level from 2.0% with a cost of living adjustment to 1.8% without a cost of living adjustment. This revision will apply to all employees currently participating in the defined benefit plan.

Retirement Savings Plan — The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. For employees hired prior to January 1, 2007, the Cooperative makes matching contributions to the account of each participant up to 2.0% of the participant's compensation. For employees hired on or after January 1, 2007, the Cooperative will automatically contribute 6.0% of base wages and match the employee contribution up to 4.0%. The Cooperative contributed approximately $1,054,000 and $879,000 to the plan in 2009 and 2008, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative. The Cooperative expects to contribute approximately $1,179,000 to the plan in 2010.

Supplemental Death Benefit Plan — The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the consolidated financial statements.

Postretirement Medical Benefits — The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50% of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan. The plan is not funded.

As a result of adopting ASC Topic 715-20, *Defined Benefit Plans — General*, (formerly FASB Statement 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*), in 2008, the Cooperative recorded an unrecognized loss related to changes in actuarial valuation assumptions and prior service costs. The Cooperative has recorded losses totaling $2,200,000 in other comprehensive income for the year ended December 31, 2008, as a result of this adoption.

The following sets forth the accumulated post-retirement benefit obligation, the change in plan assets, and the component of accrued post-retirement benefit cost and net periodic benefit cost as of December 31, 2009 and 2008 (dollars in thousands):

	2009	2008
Accumulated post-retirement benefit obligation — beginning of year	$ 43,340	$38,917
Service cost	1,185	1,315
Interest cost	2,633	2,367
Plan participant's contributions	755	705
Actuarial loss	1,161	1,566
Benefits paid	(1,368)	(1,530)
Accumulated post-retirement benefit obligation — end of year	$ 47,706	$43,340
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	613	825
Plan Participants' contributions	755	705
Benefits paid	(1,368)	(1,530)
Fair value of plan assets — end of year	$ -	$ -
Funded status	$ 47,706	$43,340
Unrecognized net actuarial gain	8,490	9,937
Net amount recognized	$ 56,196	$53,277
Funded status	$ 47,706	$43,340
Current liabilities	1,324	1,038
Noncurrent liabilities	$ 46,382	$42,302
Service cost	$ 1,185	$ 1,315
Interest cost	2,633	2,367
Amortization of net actuarial gain	(263)	(634)
Net periodic benefit cost	$ 3,555	$ 3,048
Net amount recognized (included in other comprehensive income)	$ (1,425)	$ (2,200)
Amounts in other comprehensive income expected to be realized in 2010 — actuarial (loss) gain	$ (278)	$ 448

The discount rate used in determining the accumulated postretirement benefit obligation was 6% for 2009 and 2008.

The Cooperative expects to contribute approximately $1,324,000 to the plan in 2010.

The following expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

Years Ending December 31	
2010	$ 1,324
2011	1,445
2012	1,611
2013	1,763
2014	1,937
2015–2018	12,676
Total	$20,756

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2009. The rate is assumed to decline to 5% after six years.

The health care cost trend rate assumption has a significant effect on the amounts reported (dollars in thousands).

	2009	2008
Effect on total of service cost and interest cost components (dollars in thousands):		
1-percentage-point increase	$ 800	$ 816
1-percentage-point decrease	(628)	(636)
Effect on postretirement benefit obligation (dollars in thousands):		
1-percentage-point increase	8,618	8,512
1-percentage-point decrease	(6,913)	(6,756)

7. COMMITMENTS, EXPENDITURES AND CONTINGENCIES

The Cooperative has entered into long-term power purchase agreements having minimum payment obligations for one year subsequent to December 31, 2009, as follows (dollars in thousands):

2010	$5,944

The Cooperative is committed to purchase coal for its generating plants under long-term contracts having minimum purchase obligations as follows (dollars in thousands):

Years Ending December 31	
2010	$223,354
2011	182,670
2012	150,809
2013	99,717
2014	58,959

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price re-openers.

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1,000,000 for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the consolidated financial statements.

On January 17, 2006, the Cooperative received a Notice of Violation (NOV) from the EPA alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units 1 and 2. At issue was EPA's allegation that the Cooperative incorrectly reported the turbine, rather than the generator, nameplate ratings, thus placing the Units under the Acid Rain Program. On February 10, 2006, the Cooperative received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's covered the years 2000 through 2004.

The parties executed a Consent Decree (Acid Rain Consent Decree) which the United States Department of Justice lodged on September 20, 2007, and subsequently entered after the 30-day public comment period on November 30, 2007.

Under the terms of the Acid Rain Consent Decree, the Cooperative must make six annual payments of $1,900,000 (Fixed Penalty Payment), totaling $11,400,000. The Cooperative made the third installment of this fixed penalty payment in December 2009. In addition to the Fixed Penalty Payment, the Cooperative is subject to a Contingent Penalty Payment for a period of five years, based on audited consolidated financial statements for the years 2008 through 2012. The Cooperative will be subject to the Contingent Penalty Payment if certain financial ratios are achieved. As of December 31, 2009, the Cooperative has reserved $19,241,000 for such contingent penalty payments.

In November 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at the J.K. Smith Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $800,000,000.This construction project is subject to PSC approval.

8. REGULATORY ASSETS AND LIABILITIES

ASC Topic 980-10 applies to regulated entities for which rates are designed to recover the costs of providing service. In accordance with this topic, certain items that would normally be reflected in the Consolidated Statements of Revenue and Expenses are deferred on the Consolidated Balances Sheets. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process. During 2008, the Cooperative recorded a regulatory asset of $12,301,000 related to unrecorded forced outage replacement power costs incurred during 2008 that are included in their 2009 rate case. The PSC approved a three-year amortization period beginning in April 2009.

Regulatory Assets (Liabilities) were comprised of the following as of December 31, 2009 and 2008 (dollars in thousands):

	2009	2008
Deferred outage costs	$ 9,226	$ 12,301
Deferred management audit costs	556	-
Fuel adjustment clause	5,846	1,774
Environmental cost recovery	3,306	(4,060)
	$ 18,934	$ 10,015

9. SUBSEQUENT EVENTS

The Cooperative's finanial statements are available for issuance as of April 2, 2010. Any subsequent events have been evaluated through this date.

On March 10, 2010, a motion was granted in the Cooperative's favor declaring a third party obligated under its contract with the Cooperative to provide 585,000 tons of coal to the Cooperative. The total savings to the Cooperative as a result of this motion are calculated to be approximately $5,800,000.

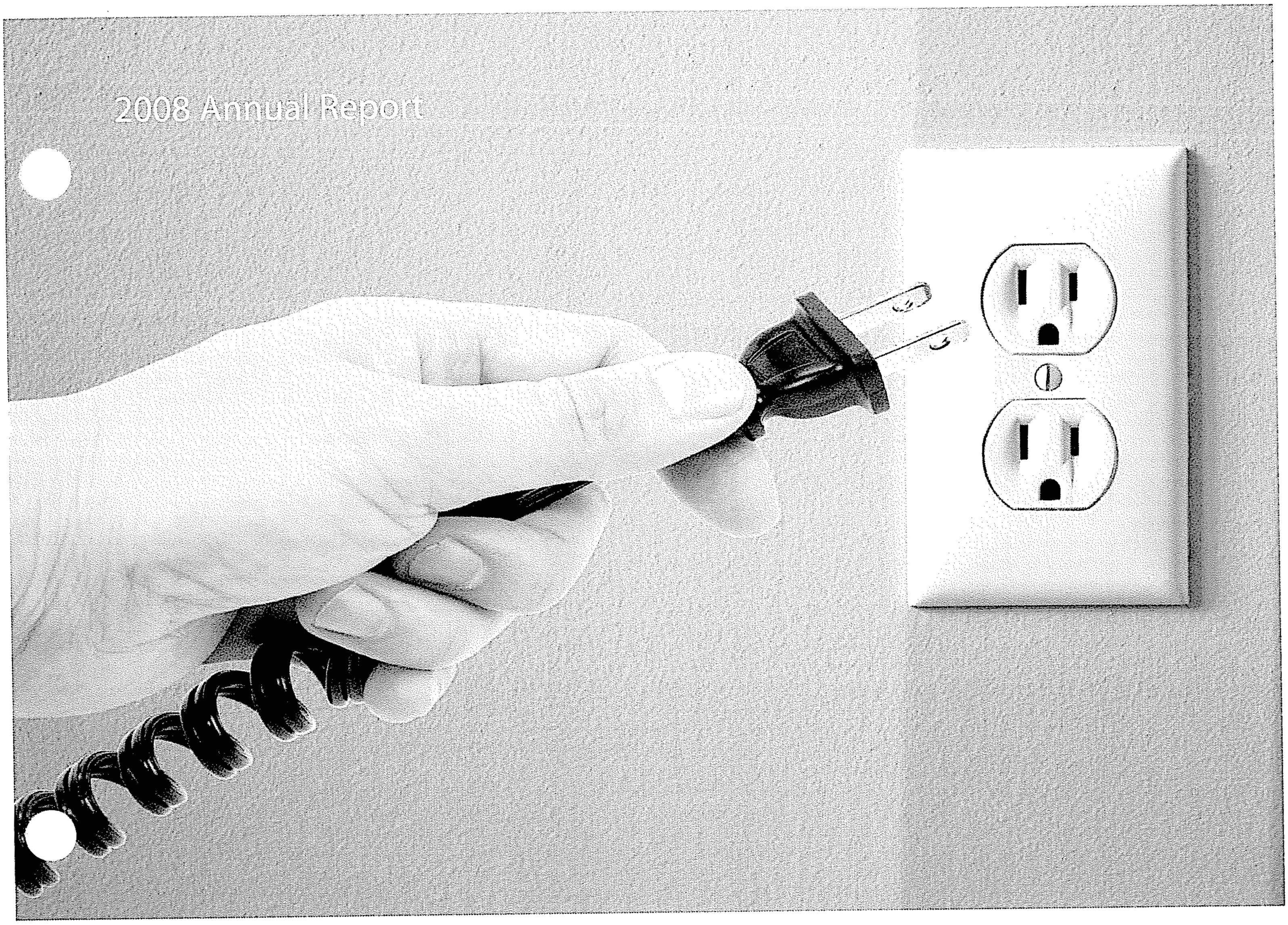
EAST KENTUCKY POWER COOPERATIVE

4775 Lexington Road, 40391
P.O. Box 707,
Winchester, KY 40392-0707
Telephone: 859-744-4812
Fax: 859-744-6008
www.ekpc.coop

A Touchstone Energy® Cooperative

East Kentucky Power Cooperative, Inc.

2008 Annual Report

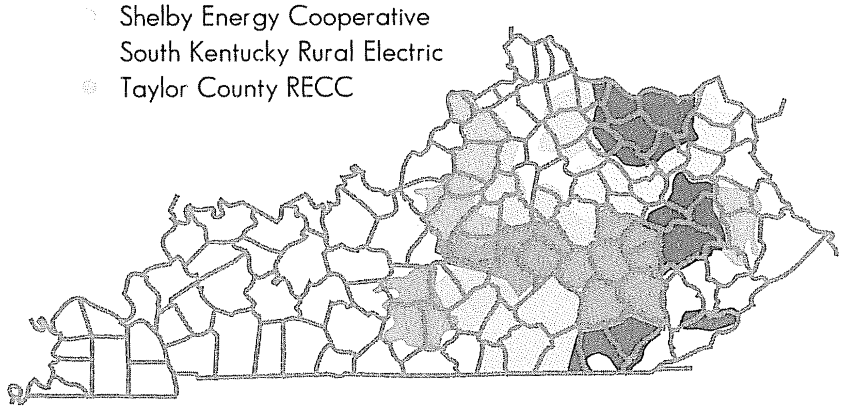


EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy® Cooperative

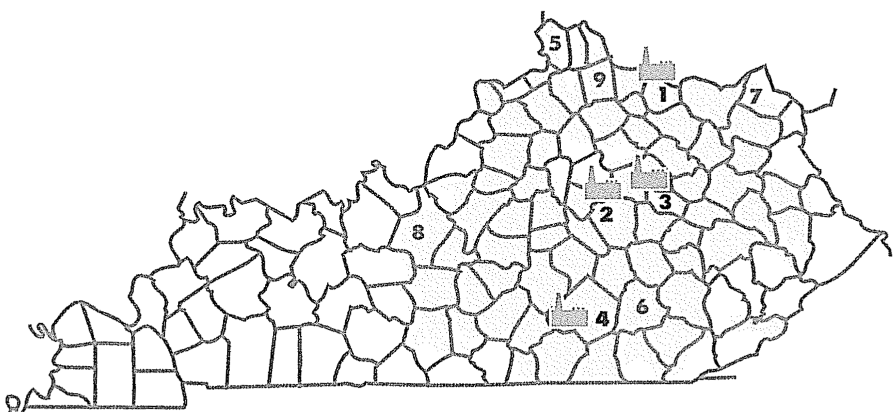
The 16 distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	1,396 net MW
2	Dale	196 net MW
3	Smith Combustion Turbine Units	Summer 626 net MW Winter 842 net MW
4	Cooper	341 net MW
Landfill Gas Plants		
5	Bavarian	3.2 net MW
6	Laurel Ridge	4.0 net MW
7	Green Valley	2.4 net MW
8	Pearl Hollow	2.4 net MW
9	Pendleton	3.2 net MW
Southeastern Power Adm. (SEPA), hydro power		170 MW



shows system-wide service area

East Kentucky Power Cooperative

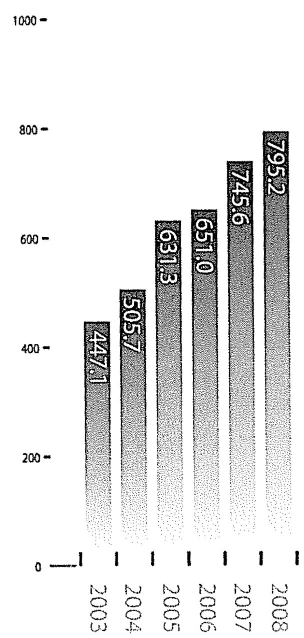
East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving 518,000 Kentucky homes, farms, businesses and industries across 87 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.

Table of Contents

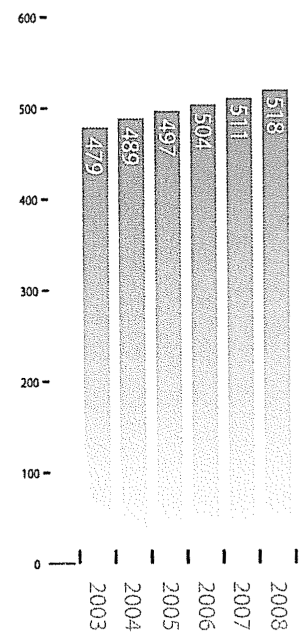
Operating Revenue

in $Millions



Member Consumer Meters

Year-End in Thousands



EAST KENTUCKY POWER COOPERATIVE

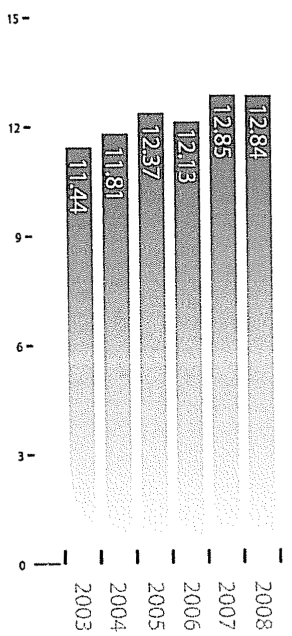
Financial Highlights (Dollars in Thousands)

	2008	2007	% Increase
Operating Revenue	**$795,172**	$745,599	6.6
Operating Expenses	**$686,748**	$638,533	7.6
Net Margin	**$27,872**	$44,493	-37.4
Fuel Expenses for Generation	**$302,978**	$293,756	3.1
Purchased Power Cost	**$164,896**	$120,381	37.0
Interest Cost	**$109,876**	$102,986	6.7
Members' Equities	**$190,372**	$164,802	15.5
Construction Expenditures	**$388,050**	$421,809	-8.0
Assets	**$2,822,052**	$2,363,931	19.4
Sales to Member Cooperatives (MWh)	**12,842,385**	12,851,620	-0.1
System Peak Demand (MW)			
Winter Season	**3,149** *	3,033	3.8
Summer Season	**2,265**	2,487	-8.9
Number of Member System Consumers	**518,364**	511,371	1.4

* set January 16, 2009

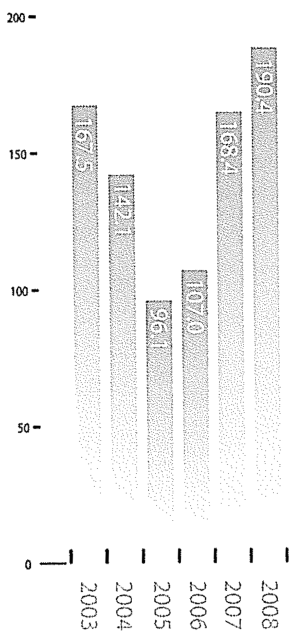
Energy Sales to Members

MWh in Millions



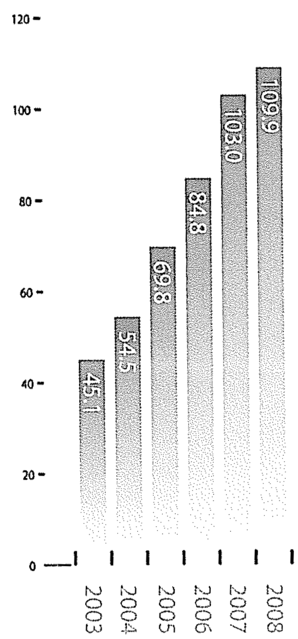
Members' Equities

Year-End in $Millions



Interest Cost

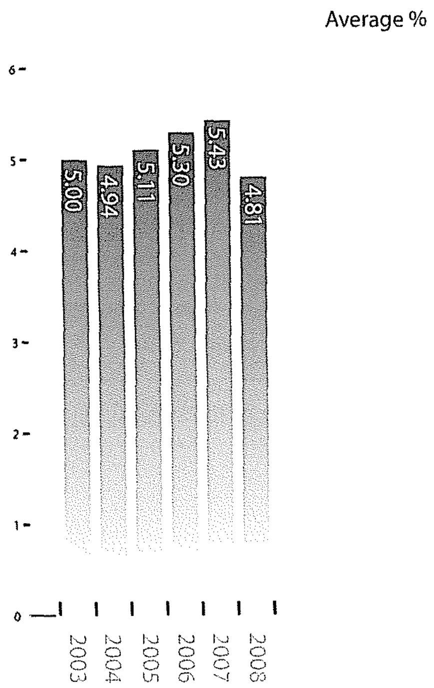
in $Millions



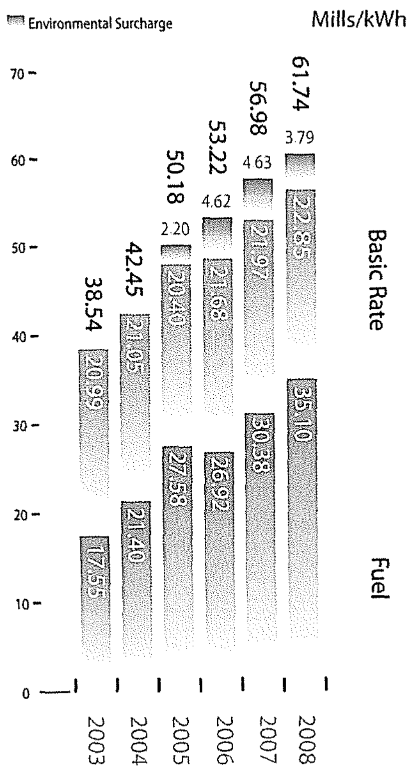
Five-Year Statistical Summary

	2008	2007	2006	2005	2004
Net Margins (Deficit) - in thousands	$27,872	$44,493	$11,174	($46,007)	($27,267)
TIER	1.25	1.43	1.13	0.34	.49
DSC	1.04	1.17	0.98	0.66	0.72
Fuel Expense - (in thousands)	$302,978	$293,756	$278,210	$263,434	$173,506
Construction Expenditures - in thousands					
Generation	$303,928	$387,816	$222,722	$131,756	$166,351
Transmission	$84,038	$33,802	$62,638	$26,987	$35,818
General	$84	$191	$5,103	$3,864	$2,846
Investment In Facilities - in thousands					
Original Cost	$3,251,029	$2,925,546	$2,482,319	$2,192,259	$2,025,314
Long-Term Debt - in thousands	$2,385,919	$1,955,039	$1,643,305	$1,339,263	$1,223,164
Total Assets - in thousands	$2,822,052	$2,363,931	$2,030,092	$1,687,894	$1,558,561
Number of Employees - Full-Time	645	620	620	635	629
Cost of Coal Purchased					
$/ton	$60.78	$51.06	$55.82	$49.95	$43.24
$/MBtu	$2.62	$2.17	$2.35	$2.09	$1.78
Amount of Coal Purchased - tons	4,638,788	4,788,727	4,788,437	4,559,035	3,859,339
Generation - MWh	10,670,423	11,493,588	11,197,632	11,105,626	9,046,449
System Peak Demand - MW					
Winter Season	3,149	3,033	2,859	2,642	2,711
Summer Season	2,265	2,487	2,339	2,227	2,041
Sales to Other Utilities - MWh	115,608	154,743	77,010	144,197	53,466
Member Load Growth - %					
Energy	(0.07)	5.8	(1.9)	4.7	3.2
Demand	0.40	5.3	1.3	6.2	4.0
Load Factor - %	48	51	50	52	51
Miles of Line	2,755	2,704	2,673	2,663	2,638
Installed Capacity - kVA	9,282,666	9,066,866	9,010,066	8,919,666	8,863,666
Distribution Substations	342	333	321	311	304

Average Interest Rate on Long-Term Debt Year-End



Power Cost to Members



2008: EKPC CONTINUES MAKING PROGRESS

East Kentucky Power Cooperative showed continued financial improvement in 2008, posting a net margin of $27.9 million. Members' equity has grown steadily in the past three years, reaching $190 million in 2008, up from $108 million in 2006. Continued equity growth is critical in order for EKPC to meet financial obligations and qualify for financing for future capital projects.

EKPC is in the midst of a multi-year construction program, which will see the addition of more than $2 billion in new generating units to meet growing demand and modifications to existing facilities in order to meet increasingly strict air-quality standards.

In 2008, construction continued on the $528 million Spurlock #4 baseload unit. The unit came online in April 2009, employing circulating fluidized bed technology to generate up to 278 megawatts of power as one of the cleanest coal-fueled units in the United States, similar to our Gilbert Unit, which came online in 2005.

To meet its members' growing demand for power, EKPC continues to work toward obtaining the permits necessary to begin construction on Smith #1, a coal-fueled baseload unit that will be identical to the Gilbert Unit and Spurlock #4. The unit is expected to be in service by 2012 or 2013.

EKPC also began construction in 2008 on two peaking units that will be fueled by natural gas. Each of those units is expected to cost about $80 million.

In anticipation of Spurlock #4 coming online, EKPC filed a request with the Kentucky Public Service Commission to raise wholesale rates. On March 31, 2009, the PSC approved a 6.8 percent increase. The rate increase will allow EKPC to recover the costs of the new unit and continue to meet its financial obligations.

In 2008, the PSC gave EKPC permission to recover the cost of $475 million in emissions-control equipment through the environmental surcharge to its members. Among the costs to be recovered are new scrubbers on Spurlock Units #1 and #2, as well as other emissions-control equipment. The Spurlock #2 scrubber came online in the fall of 2008 and the Spurlock #1 scrubber is scheduled to come online in 2009.

EKPC continues to explore alternative fuels, renewables and efficiency options that show potential for being reliable and cost-effective.

The past year saw the continued streamlining of the organization with emphasis on efficiency and containing costs. EKPC remains committed to providing power as reliably and affordably as possible.

Bob Marshall
President and CEO

Wayne Stratton
Chairman of the Board

In 2008, EKPC began commissioning its newest baseload generating unit, Spurlock Unit #4. The unit incorporates circulating fluidized bed (CFB) technology, which produces 80 percent less nitrogen oxide than a conventional coal-fueled plant, and removes 98 percent of the sulfur dioxide. Spurlock Unit #4 is EKPC's second CFB unit. In addition to their low emission levels, they have the capability to burn renewable fuels such as switchgrass.

Year in Review

Our Cooperative

Board hires Campbell to succeed Marshall as CEO

In November, EKPC's Board contracted with NRECA's Executive Search Department to assist in the search for Bob Marshall's successor as EKPC's next president and CEO. In May 2009, the Board announced that Anthony "Tony" Campbell has been chosen to succeed Marshall. When Marshall accepted the position in 2006, he planned to serve for three years.

J.K. Smith dies; helped organize EKPC

J. K. Smith, EKPC's first secretary-treasurer and one-time acting president and general manager, died Nov. 6, 2008. Mr. Smith was among the organizers of EKPC, serving on the board of directors from 1941 to 1949. He was the cooperative's first secretary-treasurer. Later, Mr. Smith served as acting president and general manager of EKPC from September 1979 until February 1980. EKPC's J.K. Smith Station in Trapp, Ky., is named in honor of Mr. Smith. Mr. Smith was the former manager of Fleming-Mason RECC, and the first executive manager of the Kentucky Association of Electric Cooperatives. Mr. Smith has been inducted into the Cooperative Hall of Fame.

FINANCES:
Building financial strength

EKPC granted 6.8 percent rate increase

Effective April 1, 2009, the Kentucky Public Service Commission allowed EKPC to raise wholesale power rates by 6.8 percent. This rate increase will allow EKPC to recover the costs of its new $528 million Spurlock #4 generating unit, which entered commercial service in April 2009, and to ensure that EKPC continues to meet its financial obligations.

PSC allows EKPC to recover cost of environmental improvements

In September, the Kentucky Public Service Commission approved a settlement allowing EKPC to recover the costs of installing and operating nearly $475 million worth of equipment designed to reduce plant emissions and meet increasingly stringent federal air-quality standards. EKPC will recover the costs through the environmental surcharge to its members. The settlement will help EKPC recover the costs of equipment such as scrubbers on Spurlock Units #1 and #2, pollution-control equipment on Spurlock #4, modified burners on units at Spurlock and Dale stations, and continuous emissions monitoring equipment on all of EKPC's generating units.

EKPC is dedicated to providing safe, affordable, reliable power to its 16 member cooperatives and the 500,000 Kentucky homes, farms and businesses they serve. In recent years, EKPC has invested more than $600 million in reducing emissions from its coal-fueled power plants. In addition, EKPC is spending nearly $1.75 billion to deploy new, cleaner technology on the new coal-fueled plants it is building.

BASELOAD/PEAKING GENERATION:
Meeting growing demand

New peaking units expected online in 2009

EKPC began work in October 2008 preparing the site of two new combustion turbine generating units at Smith Station, each costing about $80 million. The units, which will be fueled by natural gas, are expected to be online in late 2009. Together, the two new units will have the capacity to generate about 200 megawatts of power, or enough electricity to power 110,000 Kentucky homes. The units are LMS 100 models, manufactured by General Electric. They will provide peaking power for EKPC's member systems.

Spurlock #4 unit goes online in April 2009

Construction on the $528 million Spurlock Unit #4 wound down in 2008 and EKPC began commissioning the unit. The 278-megawatt unit is EKPC's second unit featuring circulating fluidized bed (CFB) technology, which drastically reduces air emissions and has the flexibility to burn different fuel types, including biomass. Spurlock #4 began commercial operation in April 2009.

EKPC announces plans for pollution-control equipment on Cooper #2

In December, EKPC announced plans to invest nearly $324 million to install additional pollution-reduction equipment at Cooper Station Unit #2 to ensure environmental compliance for the future operation of the unit. The planned new facilities include a flue-gas desulfurization unit, a selective catalytic reduction device, and a pulse jet fabric filter. This equipment will reduce emissions of sulfur dioxide, nitrogen oxide and particulate matter from Cooper #2. Construction of the facilities will begin in the spring of 2010 and operation of the equipment will begin two years later.

RENEWABLES:
Seeking alternatives to diversify

Switchgrass tested as supplemental power plant fuel

In December, switchgrass was tested as a supplemental fuel in EKPC's Gilbert Unit #3, a circulating fluidized bed generating unit at Spurlock Station in Maysville, Ky. EKPC mixed about 70 tons of processed switchgrass into the unit's coal feedstock and burned it in the unit's boiler. The test burn was part of a four-year pilot project in which EKPC and the University of Kentucky's College of Agriculture are studying the viability of switchgass as a supplemental power plant fuel. Switchgrass is a warm-season grass that is native to Kentucky.

EKPC begins constructing its sixth landfill gas plant

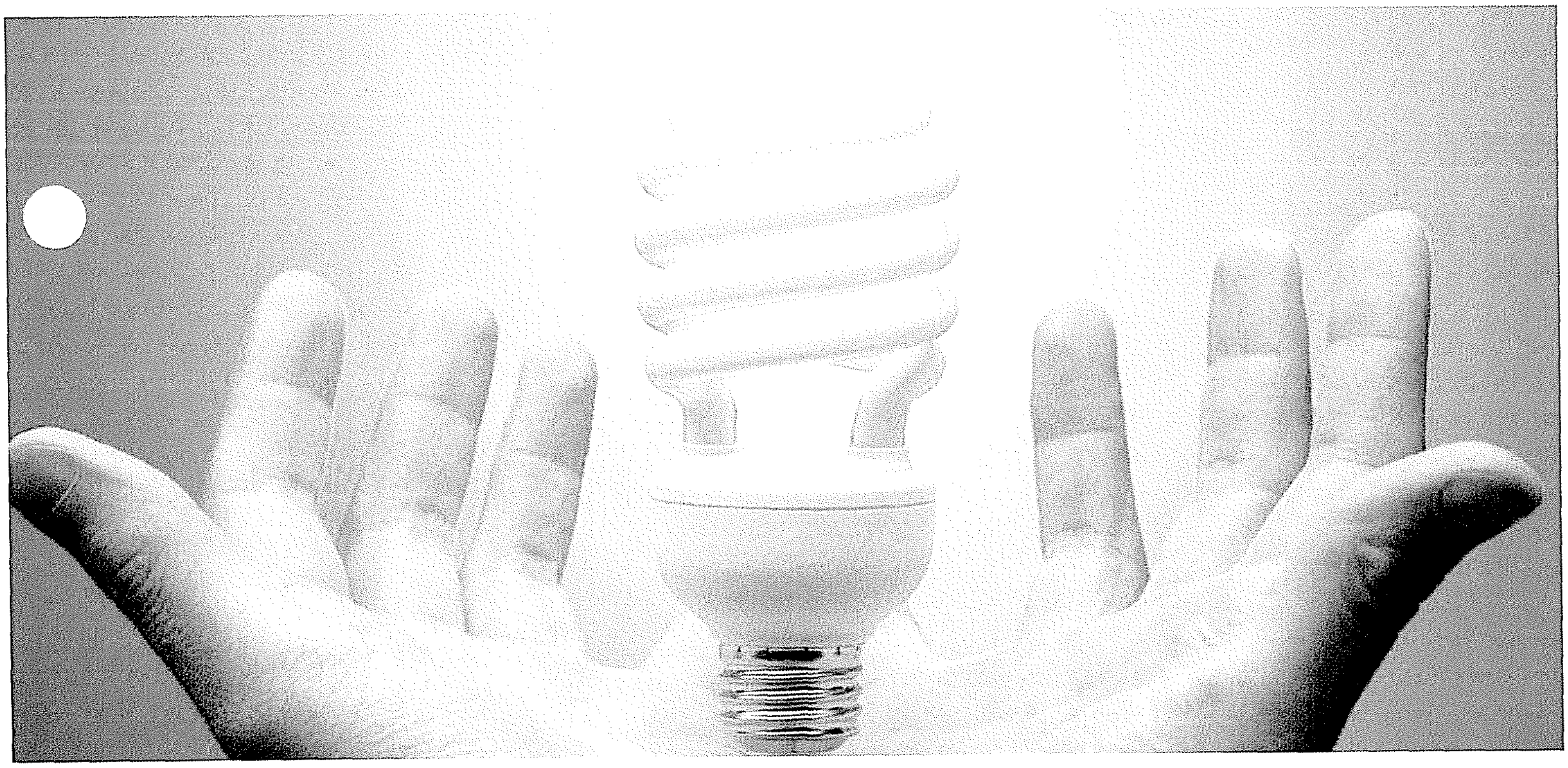
EKPC broke ground in October for its sixth plant fueled by methane gas from a landfill. The $2.5 million plant is located at the Maysville-Mason County Landfill. It will generate 1.6 megawatts, enough electricity to supply about 880 Kentucky homes. When the Mason County facility comes online in the spring of 2009, EKPC's six landfill gas plants will generate enough power to supply about 8,000 Kentucky homes.

EKPC seeks contracts for renewable power

In April, EKPC issued a Request for Proposals (RFP) seeking up to 300 megawatts of renewable energy resources. EKPC received 22 proposals totaling more than 2,000 MW of power ranging from solar and wind to biomass and solid waste projects. Through the remainder of the year, EKPC evaluated the proposals to determine the most viable projects. Contracts totaling as much as 50 MW of power are expected to be signed in 2009.

EKPC joins the National Renewable Cooperative Organization

In May, EKPC became a founding member of the National Renewables Cooperative Organization, an innovative organization dedicated to developing sources of renewable energy for electric cooperatives nationwide. The organization will assist EKPC and other cooperatives diversify their generation resources by finding existing renewable projects or developing new ones.



ENERGY EFFICIENCY:
Helping retail members manage power costs

EKPC, members begin rolling out SimpleSaver direct load control program

EKPC and its member systems began implementing the SimpleSaver direct load control program, which will allow EKPC to use radio signals to briefly cycle off participating retail members' central air conditioning and water heaters during peak demand periods when energy costs are highest. SimpleSaver's goal is to reduce peak demand and help EKPC delay or avoid building expensive new power plants or avoid purchasing costly market power. Participation in the program is voluntary. Over the next five years, EKPC hopes to enroll 50,000 air-conditioning units and 27,000 water heaters.

Simple Savings bulletins offer quick, affordable efficiency fixes

In July, EKPC and its member systems unveiled the Simple Savings information bulletins as a tool to educate homeowners about inexpensive ways they can seal energy leaks that are commonplace in homes throughout Kentucky. The bulletins provide step-by-step instructions for fixing energy leaks that energy advisors find in homes every day during audits in the field. The efficiency projects detailed in the bulletins are relatively simple and affordable to implement. The bulletins can be downloaded from EKPC's web site at http://www.ekpc.com/simplesavings.html, as well as EKPC's member cooperatives' web sites.

EKPC developing Real-Time Pricing for commercial & industrial members

EKPC is developing a voluntary Real-Time Pricing program for commercial and industrial loads above 1 megawatt. The program will enable participants to shift their load to off-peak periods in response to real-time, day-ahead prices. EKPC plans to offer a pilot program on a voluntary basis to eligible retail C&I customers over a three-year period.

EXECUTIVE STAFF

Coordinates strategic initiatives with day-to-day operations to further the goals of the company.

Stacy Barker
Corporate Services

Jim Lamb
Power Supply

Dave Eames
Finance

John Twitchell
G&T Operations

David Smart
Legal

Financial Highlights

Results of Operations

Operating revenues for the twelve months ended December 31, 2008 increased approximately $49.6 million compared to the same period in 2007. As a result of mild weather throughout 2008 megawatt-hour (MWh) sales to members decreased 0.1% compared to the twelve-month period ended December 31, 2007. Through December 31, 2008, demand and energy revenue to members increased $60.6 million over the same period in 2007. On October 31, 2008, EKPC filed its application in Case No. 2008-00409 for a general adjustment of its wholesale electric rates using a fully forecasted test year. The Commission granted intervention to the Attorney General (AG) and Kentucky Industrial Utility Customers (KIUC). EKPC, the AG, and KIUC reached a negotiated "black box" settlement in this proceeding. The Settlement Agreement, which was approved by the Commission on March 31, 2009, includes an annual revenue increase of $59.5 million effective for service rendered on and after April 1, 2009. The PSC allows electric utilities to recover fuel and purchased power costs through a fuel adjustment clause and to recover Federal Clean Air Act compliance costs through an environmental surcharge. For the twelve-month period ended December 31, 2008, fuel adjustment clause revenue increased $19.8 million and environmental surcharge decreased $10.7 million over the same period last year.

During 2007, EKPC settled two lawsuits with the U.S. Environmental Protection Agency (EPA). The first lawsuit alleged physical or operating changes to three coal-fired generators resulted in simultaneous violations of various aspects of the Clean Air Act. EKPC and the EPA executed a consent decree. EKPC agreed to pay $750,000 in civil penalties, install certain emissions monitoring equipment, and report emissions. The second lawsuit alleged technical violations of the Clean Air Act Acid Rain program, and provisions of the NOx State Implementation Plan at Dale Units 1 and 2. The issue for both units involved whether these units were subject to regulations as generators having a "nameplate" capacity greater than 25 megawatts and/or were generators used to generate 25 megawatts or more of electricity. EKPC and the EPA executed a second consent decree. EKPC agreed to make six annual payments of $1.9 million in fixed penalties, the first two of which were paid in December 2007 and 2008. EKPC is subject to a contingent penalty payment if certain financial ratios are achieved in 2008 through 2012. For 2008, this penalty was $2.7 million. EKPC also surrendered certain NOx and SO2 allowances.

Production Operating Expense, which includes fuel, other production and purchased power, are categories that should be considered together for comparative purposes. On an hour-to-hour basis, EKPC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economic source. Because of the weather conditions throughout 2008, EKPC ran its combustion turbines for peaking purposes. Natural gas usage through December 31, 2008 increased $20.2 million over the twelve months ended December 31, 2007. EKPC's coal costs have increased as a result of increased demand for low-sulfur coal and decreased supply of such coal. In the twelve months ended December 31, 2008 compared to the same period in 2007, fuel costs have increased $9.2 million. Because of weather conditions, outages at power plants and the growth in the EKPC system, EKPC must purchase power to meet member needs. Purchased power costs for the twelve-month period ended December 31, 2008 have increased $44.5 million over the same period in 2007.

Generation of Power

EKPC has coal fired generating facilities at Dale Station in Clark County, Cooper Power Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units is supplemented during peak times by combustion turbines at J.K. Smith Station in Clark County. East Kentucky's generating facilities produced 10.7 million megawatt-hours in 2008, compared with 11.5 in 2007.

EKPC's power stations burned 4.65 million tons of coal in 2008, compared with 4.82 tons in 2007. The cost of coal burned during 2008 was $2.538 per million Btu, or $58.51 per ton. The cost of coal purchased during 2008 was $2.62 per million Btu or $60.78 per ton.

The combustion turbines at the Smith Generating Facility consumed 192,209 gallons of oil with a cost of $1.016 per gallon or $7.330 million Btu. The combustion turbines also consumed 2,104,352 MCF of natural gas with a cost of $10.05 per MCF.

Interest Costs

Gross interest expense was $109.9 million. The prime rate decreased from 7.25 percent to 3.25 percent during 2008. During the year, Federal Financing Bank (FFB) interest rates for long-term advances decreased from 4.37 to 2.63 percent.

Of the total $2,457.4 million debt outstanding, current interest rates range from a low of 2 percent to a high of 10.66 percent for 2008. The average annual rate on all debt decreased from 5.43 percent in 2007 to 4.81 percent in 2008.

Virtually all of EKPC's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $86.6 million of pollution control and solid waste disposal revenue floating/fixed rate bonds is being kept in the variable rate mode. This rate averaged 2.58 percent for 2008.

OPERATIONS, SERVICES & SUPPORT COMMITTEE

Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs and other corporate functions.

BOARD MEMBERS

Inter-County Energy

Daniel Divine

Blue Grass Energy

E. A. Gilbert

Big Sandy RECC

Wade May

Nolin RECC

Secretary-Treasurer

A. L. Rosenberger

Taylor County RECC

Don Shuffett

SYSTEM MANAGERS

South Kentucky Rural Electric

Allen Anderson

Grayson RECC

Carol Fraley

Cumberland Valley Electric

Ted Hampton

Shelby Energy

Debbie Martin

Fleming-Mason Energy

Chris Perry

Jackson Energy

Don Schaefer

FUEL & POWER SUPPLY COMMITTEE

Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS

Licking Valley RECC

Mike
Adams

Jackson Energy

Fred
Brown

Cumberland Valley Electric

Elbert
Hampton

Farmers RECC

Paul
Hawkins

Grayson RECC

Bill
Rice

Fleming-Mason Energy

Vice-Chair

Lonnie
Vice

SYSTEM MANAGERS

Clark Energy

Paul
Embs

Salt River RECC

Larry
Hicks

Owen Electric

Mark
Stallons

Taylor County RECC

Barry
Myers

Big Sandy RECC

Bobby
Sexton

POWER DELIVERY COMMITTEE

Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

BOARD MEMBERS

South Kentucky Rural Electric

Tom Estes

Owen Electric

Hope Kinman

Salt River RECC

Jimmy Longmire

Clark Energy

Bill Shearer

Shelby Energy

Chair

Wayne Stratton

SYSTEM MANAGERS

Blue Grass Energy

Dan Brewer

Licking Valley RECC

Kerry Howard

Inter-County Energy

Jim Jacobus

Nolin RECC

Mickey Miller

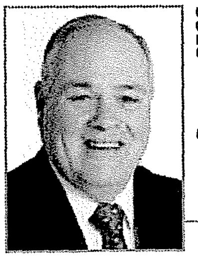
Farmers RECC

Bill Prather

AUDIT COMMITTEE

Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS



Farmers RECC

Paul
Hawkins

Clark Energy

Bill
Shearer

SYSTEM MANAGERS

Fleming-Mason
Energy

Chris
Perry

Salt River Electric

Larry
Hicks

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Deloitte & Touche LLP, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Deloitte & Touche LLP and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Deloitte & Touche LLP has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Robt M. Marshall David G. Eames

Bob Marshall
President and CEO

David G. Eames
Chief Financial Officer

Deloitte.

Deloitte & Touche LLP
111 Monument Circle
Suite 2000
Indianapolis, IN 46204-5120
USA
Tel: +1 317 464 8600
Fax: +1 317 464 8500
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Audit Committee
East Kentucky Power Cooperative, Inc. and Subsidiary:

We have audited the accompanying consolidated balance sheet of East Kentucky Power Cooperative, Inc. and subsidiary (the "Cooperative") as of December 31, 2008, and the related consolidated statements of revenues and expenses, changes in members' equities, and cash flows for the year then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Cooperative for the year ended December 31, 2007 were audited by other auditors whose report, dated March 19, 2008 and April 7, 2009, expressed an unqualified opinion on those statements and included explanatory paragraphs related to the restatement of the Cooperative's 2007 consolidated financial statements and the adoption of Statement of Financial Accounting Standards No. 158: *Employer's Accounting for Defined Benefit and Other Postretirement Plans – An Amendment FASB Statements No. 87, 88, 106 and 132(R).*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2008 consolidated financial statements present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 10, 2009, on our consideration of East Kentucky Power Cooperative, Inc. and subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the 2008 basic consolidated financial statements taken as a whole. The supplementary consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. This supplementary information is the responsibility of the Cooperative's management. The supplementary 2008 consolidating information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole. The 2007 supplementary consolidating information was subject to auditing procedures by other auditors whose report, dated March 19, 2008 and April 7, 2009, stated that such information, as restated, is fairly stated in all material respects when considered in relation to the basic 2007 consolidated financial statements taken as a whole.

Deloitte + Touche LLP

April 10, 2009

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008	2007 (Restated)
ASSETS		
ELECTRIC PLANT — At original cost:		
In-service	$2,119,372	$2,157,134
Construction in progress	1,131,657	768,412
	3,251,029	2,925,546
LESS ACCUMULATED DEPRECIATION	780,846	835,416
Electric plant — net	2,470,183	2,090,130
LONG-TERM ACCOUNTS RECEIVABLE	4,564	5,681
INVESTMENT SECURITIES:		
Available for sale	47,343	46,551
Held to maturity	15,472	8,195
CURRENT ASSETS:		
Cash and cash equivalents	54,305	16,660
Accounts receivable	85,273	68,309
Fuel	55,976	43,868
Materials and supplies	41,664	39,205
Regulatory Asset	1,774	5,928
Emission allowances	20,750	27,286
Other	2,854	2,782
Total current assets	262,596	204,038
REGULATORY ASSET	12,301	
DEFERRED FINANCE CHARGES	2,970	3,392
OTHER	6,623	5,944
TOTAL	$2,822,052	$2,363,931
LIABILITIES AND MEMBERS' EQUITIES		
MEMBERS' EQUITIES	$ 190,372	$ 164,802
LONG-TERM DEBT — Excluding current portion	2,385,919	1,955,039
CURRENT LIABILITIES:		
Current portion of long-term debt	71,517	61,137
Accounts payable	88,050	106,153
Current portion of regulatory liability	4,060	1,458
Accrued expenses	19,798	11,139
Total current liabilities	183,425	179,887
ACCRUED POSTRETIREMENT BENEFIT COST	42,302	38,917
REGULATORY LIABILITY		807
OTHER	20,034	24,479
TOTAL	$2,822,052	$2,363,931

See notes to consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (Dollars in thousands)

	2008	2007 (Restated)
OPERATING REVENUE	$ 795,172	$ 745,599
OPERATING EXPENSES:		
Production:		
Fuel	302,978	293,756
Other	115,536	116,882
Purchased power	164,896	120,381
Transmission and distribution	34,064	27,495
Depreciation	41,197	40,563
General and administrative	28,077	39,456
	686,748	638,533
OPERATING MARGIN	108,424	107,066
NONOPERATING MARGIN (DEFICIT):		
Interest expense	(109,876)	(102,986)
Interest income	5,385	7,860
Allowance for interest on borrowed funds used during construction	28,885	22,275
Lawsuit settlements	(5,424)	9,443
Miscellaneous	333	700
	(80,697)	(62,708)
CAPITAL CREDITS AND PATRONAGE CAPITAL ALLOCATIONS	145	135
NET MARGIN	$ 27,872	$ 44,493

See notes to consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income	Total Members' Equities
BALANCE — January 1, 2007 (Restated)	$ 2	$104,650	$3,035	$ 436	$108,123
Comprehensive income:					
Net margin		44,493			44,493
Unrealized gains on investments available for sale				50	50
Total comprehensive income					44,543
Adoption of SFAS No. 158				12,136	12,136
BALANCE — December 31, 2007 (Restated)	2	149,143	3,035	12,622	164,802
Comprehensive income:					
Net margin		27,872			27,872
Unrealized losses on investments available for sale				(102)	(102)
Postretirement benefit obligation				(2,200)	(2,200)
Total comprehensive income					25,570
BALANCE — December 31, 2008	$ 2	$177,015	$3,035	$10,320	$190,372

See notes to consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008	2007 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 27,872	$ 44,493
Adjustments to reconcile net margin to net cash from operating activities:		
Depreciation	41,197	40,563
Amortization of loan costs	2,861	2,859
Changes in:		
Accounts receivable	(16,964)	(6,218)
Fuel	(10,116)	(21,343)
Materials and supplies	(2,162)	(2,898)
Emission allowances	6,536	41,650
Accounts payable — trade	(9,185)	82,767
Accrued expenses	8,659	(13,803)
Accrued postretirement benefit cost	1,185	2,390
Other	(7,635)	(46,902)
Regulatory asset	(6,352)	(2,573)
Net cash (used in) from operating activities	35,896	120,985
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric plant	(432,457)	(487,839)
Maturities and calls of securities available for sale	354	10
Purchases of securities available for sale	(1,248)	(2,555)
Maturities of securities held to maturity	21	21
Purchases of securities held to maturity	(7,298)	
Payments received on long-term accounts receivable	1,117	1,747
Net cash used in investing activities	(439,511)	(488,616)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	503,502	582,126
Principal payments on long-term debt	(62,242)	(267,037)
Net cash from financing activities	441,260	315,089
NET CHANGE IN CASH AND CASH EQUIVALENTS	37,645	(52,542)
CASH AND CASH EQUIVALENTS — Beginning of year	16,660	69,202
CASH AND CASH EQUIVALENTS — End of year	$ 54,305	$ 16,660

(Continued)

EAST KENTUCKY POWER COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008	2007 (Restated)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest	$ 109,531	$ 117,955
NONCASH OPERATING TRANSACTION:		
Fuel included in accounts payable	$ 24,149	$ 22,157
Materials and supplies included in accounts payable	$ 1,119	$ 822
TRANSFER FROM ACCRUED POSTRETIREMENT BENEFIT COST TO MEMBERS' EQUITIES AS A RESULT OF INITIAL APPLICATION OF SFAS NO. 158	$ -	$ 12,136
TRANSFER OF EMISSIONS ALLOWANCES FROM OTHER LIABILITIES	$ -	$ 10,016
NONCASH INVESTING TRANSACTION:		
Additions to electric plant included in accounts payable	$ 33,405	$ 44,612
Unrealized (losses) gains on securities available for sale	$ (102)	$ 50

See notes to consolidated financial statements.

(Concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations — East Kentucky Power Cooperative (the Cooperative) is a not-for-profit electric generation and transmission cooperative providing wholesale electric service to 16 distribution members mainly for residential consumers in central and eastern Kentucky.

The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting — The consolidated financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America (GAAP) in all material respects. As a rate regulated entity, the Cooperative's financial statements reflect actions of regulators that result in the recording of revenues and expenses in different time periods than enterprises that are not rate regulated in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation (SFAS No. 71).*

Electric Plant and Maintenance — Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Inventories — Inventories of fuel and materials and supplies are valued at the lower of average cost or market.

Emission Allowances — Title IV of the Clean Air Act Amendments of 1990 provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants. Allowances are stated at cost. Issuances of allowances are recognized using a monthly weighted-average method of cost determination. Gains and losses are recorded upon the disposition of allowances.

Depreciation – Depreciation for the generating plants and transmission facilities is provided on the basis of estimated useful lives at straight-line composite rates. Rates applied to electric plant in service for both 2008 and 2007 are:

Production plant	Years 2019–2045
Transmission and distribution plant	0.71%–3.42%
General plant	2.00%–20.00%

Investment Securities — Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity.

Investment securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is not temporary.

Allowance for Interest on Borrowed Funds Used During Construction — In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000.

Fair Value of Financial Instruments — The carrying amount of cash and cash equivalents, receivables and certain other current liabilities approximates fair value due to the short maturity of the instruments. The Cooperative uses fair value to measure certain financial instruments, with related unrealized gains or losses generally affecting future recoverable costs. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Observable inputs or unobservable inputs, defined by Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157) (see New Accounting Pronouncements), may be used in the calculation of fair value. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The inputs used to measure cash and cash equivalents are level 1 measurements, as the money market funds are exchange traded funds in an active market. The inputs used to measure the investment securities are level 1 measurements, as the securities are based on quoted market prices for the same or similar investments.

At December 31, 2008 and 2007, the carrying value and the estimated fair values of the Cooperative's cash, cash equivalents and investments were as follows (dollars in thousands):

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 54,305	$ 54,305	$ 16,660	$ 16,660
Investment securities:				
Available for sale	47,343	47,343	46,551	46,551
Held to maturity	15,472	19,463	8,195	8,174

Rate Matters — Revenue is recorded monthly based on meter readings made at month-end.

The PSC has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales.

The PSC has an environmental cost recovery mechanism that allows utilities to recover certain costs incurred in complying with the Federal Clean Air Act. This environmental surcharge is being billed on a percentage of revenue basis.

The PSC granted an interim increase in base rates of $19,000,000 on an annualized basis for service rendered on and after April 1, 2007. The PSC made this interim increase permanent in December 2007.

In October 2008, the Cooperative submitted an application to the PSC requesting a rate increase of approximately $68,000,000 annually. On March 31, 2009, the PSC approved a settlement reached among the Cooperative and the interveners which will yield a $59,500,000 increase in annual revenue. This rate increase is effective for service rendered on and after April 1, 2009.

Concentration of Credit Risk — Credit risk represents the risk of loss that would occur if suppliers or customers did not meet their contractual obligations to EKPC. Concentration of credit risk occurs when significant suppliers or customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

The Cooperative's sales are primarily to its member cooperatives and amounted to approximately $792,906,000 and $732,348,000 for 2008 and 2007, respectively. Accounts receivable at December 31, 2008 and 2007, were primarily from billings to member cooperatives.

At December 31, 2008 and 2007, individual account balances that exceeded 10% of total accounts receivable are as follows (dollars in thousands):

	2008	2007
Owen Electric Cooperative	$ 9,536	$ 9,354
South Kentucky RECC	9,083	
Blue Grass Energy Cooperative	8,540	

Cash and Cash Equivalents — The Cooperative considers temporary investments having a maturity of three months or less when purchased to be cash equivalents.

At December 31, 2008 and 2007, respectively, the Cooperative had $0 and $590,000 of cash on deposit at one bank, which is in excess of federally insured limits.

Estimates in the Financial Statements — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Asset Impairment — Long-lived assets held and used by the Cooperative are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Specifically, the evaluation for impairment involves comparison of an asset's carrying value to the estimated undiscounted cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded as a charge to operations based on the difference between the asset's carrying amount and its fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2008 or 2007.

Members' Equities — Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members. In addition, any available capital credits will also be allocated to members on a contribution-to-gross margins basis.

A provision in the Cooperative's bylaws prohibits the return of capital contributed by patrons unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 40% of total assets. In addition, provisions of certain loan agreements prohibit the retirement of capital until stipulated requirements as to liquid assets (cash and U.S. Government obligations) are met. Accordingly, at December 31, 2008, no patronage capital was available for refunds or retirement.

Comprehensive Income — Comprehensive income includes both net margin (deficit) and other comprehensive income. Other comprehensive income represents the change in unrealized gains and losses on securities available for sale as well as the change in funded status of the accumulated postretirement benefit obligation.

Income Taxes — The Cooperative is exempt under section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85% of its gross income is derived from members but is responsible for income taxes on certain unrelated business income. FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes (FIN 48)*, clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. The provisions of FIN 48 are effective for the Cooperative on January 1, 2009. This interpretation requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. Additionally, FIN 48 provides guidance on measurement, recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. In 2007, the Cooperative adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The adoption of this interpretation had no impact on net margins or members' equities.

Deferred Finance Charges — The Cooperative amortizes their deferred financing charges using the effective interest method.

Derivatives — The Cooperative's activities expose it to a variety of market risks including interest rates and commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on its operating results. These policies and strategies include the use of derivative instruments and hedging activities. These derivative instruments generally qualify for hedge accounting or the normal purchase and normal sales exclusion under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. If hedge treatment is obtained, unrealized gains or losses resulting from these instruments are deferred as a component of accumulated other comprehensive income (loss) until the corresponding item being hedged is settled, at which time the gain or loss is recognized in earnings. Gains or losses for items not qualifying for hedge treatment are accounted for as regulatory assets or liabilities and recorded on the balance sheet until such time that the asset or liability is settled, at which time the gain or loss is recognized in earnings. No derivative transactions have been identified for the years ended December 31, 2008 or 2007.

Asset Retirement Obligations — SFAS No. 143, *Accounting for Asset Retirement Obligations (SFAS No. 143)*, requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset. FASB Interpretation

47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), clarifies the term conditional asset retirement obligation in SFAS No. 143 where an obligation exists even though the method or timing of settlement may be conditional. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss. The Cooperative has certain generating plants that contain asbestos, which is required by law to be removed or contained if the plants are renovated or demolished. The Cooperative has no plans to retire any of its generating plants at this time. Because there is an indeterminate settlement date for the asset retirement obligation, the range of time over which the Cooperative may settle the obligation is unknown. Therefore, as of December 31, 2008 and 2007, the Cooperative has not recorded an asset retirement obligation because it does not have sufficient information to estimate the fair value of the asset retirement obligation.

New Accounting Standards —

SFAS No. 157, *Fair Value Measurements* (SFAS 157), defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 was effective for EKPC at January 1, 2008. See the impact of SFAS No. 157 identified in the Fair Value section above.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities (*SFAS 159), permits entities to chose, at specified election dates, to measure any financial instruments and other items at fair value that are not currently required to be measured at fair value. Once the fair value option is made on a particular instrument, it is irrevocable. Unrealized gains and losses, including upfront costs and fees, would be reported for which instruments the fair value option has been elected in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 159 was effective for EKPC at January 1, 2008, however, the statement had no impact on the Cooperative's financial statements.

SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment to FASB Statement No. 133* (SFAS 161) which amends and expands the disclosure requirements for derivative instruments and hedging activities prescribed by SFAS 133, *Accounting for Derivative Instruments and Hedging Activities.* SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application encouraged. The Cooperative does not expect the adoption of SFAS 161 to have a material impact to the consolidated financial statements.

FSP FAS 132(R) -1, *Employers' Disclosures about Postretirement Benefit Plan Assets* - to provide guidance on an employer's disclosure about plan assets of a defined benefit pension or other postretirement plan. This FSP provides objectives for the disclosure about the employer's (1) investment policies and strategies, (2) categories of plan assets, (3) fair value measurements, and (4) significant concentrations of risk. This FSP is effective for fiscal years ending after December 15, 2009. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. Earlier adoption is permitted. Because this impacts the disclosure and not the accounting treatment for benefit and other postretirement plans, adoption of this FSP will not have a material effect on the Cooperative's consolidated financial condition or results of operations.

2. RESTATEMENT

These accompanying consolidated financial statements include the impact of a restatement of the 2007 financial statements. An accounting error was identified related to the accounting for the fuel adjustment clause and the environmental cost recovery mechanism, resulting in an understatement of operating margin. The effect of the restatement on the financial results is to increase reported net margin for 2007 by $2,573,000. This restatement had no impact on compliance with debt covenants. The beginning balance for 2007 retained earnings (ending balance for 2006 retained earnings) was also increased by $1,090,000 to reflect the impact of the error on prior period earnings. The table below shows the affected balances before and after restatement:

	2007 As Previously Reported	Adjustment	2007 As Restated
Operating revenue	$ 743,026	$2,573	$ 745,599
Net margin	41,920	2,573	44,493
Regulatory asset	-	5,928	5,928
Members' equity	161,139	3,663	164,802
Current portion of regulatory liability	-	1,458	1,458
Regulatory liability	-	807	807

3. ELECTRIC PLANT

Electric plant in-service at December 31, 2008 and 2007, consisted of the following (dollars in thousands):

	2008	2007
Production plant	$1,494,325	$1,566,397
Transmission plant	516,526	479,090
General plant	70,766	69,223
Completed construction, not classified, and other	37,755	42,424
Electric plant in service	$2,119,372	$2,157,134

4. LONG-TERM ACCOUNTS RECEIVABLE

Long-term receivables include modifications to Spurlock Power Station in order to provide steam to a paper mill that recycles container board. The paper mill is reimbursing the Cooperative for the cost of the modifications through a monthly facilities charge over the 20-year life of the contract. Long-term receivables also include interest-bearing notes from joint ventures owned by the Cooperative and four of the Cooperative's member systems for the buyout of a propane company. The joint ventures of the member systems are making principal and interest (prime rate minus one-half of one percent, adjusted annually) payments. The notes are payable in full in 2015.

5. INVESTMENT SECURITIES

Amortized cost and estimated fair value of investment securities available for sale at December 31, 2008 and 2007, are as follows (dollars in thousands):

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	42,636	98		42,734
Zero Coupon Bond	3,238	317		3,555
Other	1,061		(31)	1,030
	$ 46,959	$ 415	$ (31)	$ 47,343

2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	41,660	84		41,744
Zero Coupon Bond	3,320	386		3,706
Other	1,061	16		1,077
	$ 46,065	$ 486	$ -	$ 46,551

Proceeds from maturities and calls of securities were $354,000 and $10,000 in 2008 and 2007, respectively. There were no realized gains or losses on those calls.

Amortized cost and estimated fair value of investment securities held to maturity at December 31 are as follows (dollars in thousands):

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
National Rural Utilities Cooperative Finance Corporation:				
3–5% capital term certificates	$ 7,656	$ 1,614	$ (10)	$ 9,260
6.5875% subordinated term certificate	425	167		592
0% subordinated term certificate	246		(45)	201
5.88% subordinated term certificate	7,145	2,265		9,410
	$ 15,472	$ 4,046	$ (55)	$ 19,463

2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
National Rural Utilities Cooperative Finance Corporation:				
3–5% capital term certificates	$ 7,655	$ -	$ (103)	$ 7,552
6.5875% subordinated term certificate	440	103		543
0% subordinated term certificate	100		(21)	79
	$ 8,195	$ 103	$ (124)	$ 8,174

Investment securities held to maturity with unrealized losses at December 31 not recognized in net margin are as follows (dollars in thousands):

	Unrealized Loss Less Than 12 Months		Unrealized Loss 12 Months or More	
2008	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
3–5% capital term certificates	$ -	$ -	$ 9,260	$ (10)
0% subordinated term certificate			201	(45)
	$ -	$ -	$ 9,461	$ (55)
2007				
3–5% capital term certificates	$ -	$ -	$ 7,552	$ (103)
0% subordinated term certificate			79	(21)
	$ -	$ -	$ 7,631	$ (124)

The maturity dates on the above securities range from 2019 to 2080 and have no available trading market. However, it is management's intent to hold these securities until maturity, at which time management expects to recover full value.

The amortized cost and fair value of securities at December 31, 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in Thousands)	
Available for sale:		
Due in one year or less	$45,546	$45,938
Due after one year through five years	352	375
Due after ten years	1,061	1,030
	$46,959	$47,343
Held to maturity — due after ten years	$15,472	$19,463

6. LONG-TERM DEBT

Long-term debt outstanding at December 31, 2008 and 2007 consisted of the following (dollars in thousands):

	2008	2007
First mortgage notes:		
4.199%–10.657%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2040, average rate of 5.053%	$1,628,513	$1,457,086
2%, 5%, and 5.125% payable quarterly to RUS in varying amounts through 2024, average rate of 5.011%	39,660	44,311
4.55% and 7.35%, payable quarterly to CFC in varying amounts through 2024, average rate of 5.767%	16,445	19,059
Variable rate, 5.40% at December 31, 2008, payable quarterly to CFC in varying amounts through 2024	58,386	
Fixed rate loan, 7.7% at December 31, 2008, payable semiannually in varying amounts to National Cooperative Services Corporation through 2012	6,000	7,200
Promissory notes — 2.70%–5.2625% variable rate note payable to CFC in 2010	615,000	390,000
Pollution control bonds:		
Series 1984B, variable rate bonds, due October 15, 2014, 1.50% at December 31, 2008	67,000	74,950
Series 1984J, variable rate bonds, due October 15, 2011, 5.25% at December 31, 2008	11,535	15,070
Solid waste disposal revenue bonds, Series 1993B, variable rate bonds, due August 15, 2023, 2.00% at December 31, 2008	8,100	8,500
Clean Renewable Energy Bonds, Fixed rate of 0.40% payable quarterly to CFC to December 1, 2023	6,797	
	2,457,436	2,016,176
Less current portion of long-term debt	71,517	61,137
	$2,385,919	$1,955,039

In September 2003, RUS approved a loan application in the amount of $433,863,000 for the construction of the Gilbert Unit at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. At December 31, 2008, $3,612,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $27,645,000 for the construction of five landfill gas to energy generating units including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2008, $14,453,000 of these amounts remained to be advanced.

In May 2005, RUS approved a loan application in the amount of $55,240,000 for the construction of two additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2008, $2,240,000 of these amounts remained to be advanced.

In May 2005, the Cooperative submitted to RUS a loan application in the amount of $906,973,000 for the construction of the Smith #1 Unit and the construction of five additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. In June 2007, the Cooperative re-submitted this same loan application for the Smith #1 Unit, along with the construction of only two combustion turbines and related transmission facilities for a revised loan amount of $943,932,000. In May 2008, due to the institution by RUS of a moratorium of financing of base load generation facilities, the Cooperative once again revised this loan to only include the two combustion turbines and related transmission facilities for a revised loan amount of $276,298,000. This loan was approved by RUS in June 2008. Advances on this loan are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. At December 31, 2008, this loan has not been cleared by RUS for advance of funds.

In August 2005, RUS approved a loan application in the amount of $64,240,000 for the construction of various transmission projects. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2008, $28,240,000 of these amounts remained to be advanced.

In September 2005, the Cooperative entered into an unsecured credit facility syndicate with the co-arrangers of CFC and the Bank of Tokyo-Mitsubishi. This loan was approved for a total of $650,000,000 for general operating expenses and capital construction projects. As of December 31, 2008, $35,000,000 of this amount remained to be advanced.

In March 2006, RUS approved a loan application in the amount of $481,388,000 for the construction of the Unit #4 at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2008, $43,088,000 of these amounts remained to be advanced.

In May 2007, the Cooperative submitted to RUS a loan application in the amount of $457,510,000 for the engineering and construction of a new scrubber on the Spurlock Unit #1 and the replacement of the existing scrubber on the Spurlock Unit #2. This loan was approved by RUS in June 2008. Advances on this loan are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. At December 31, 2008, this loan has not been cleared by RUS for advance of funds.

In May 2008, the Cooperative submitted to RUS a loan application in the amount of $96,147,000 for various generation projects. This loan amount was revised in July 2008 to $108,147,000. This loan was approved by RUS in August 2008. Advances on this loan are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. At December 31, 2008, this loan has not been cleared by RUS for advance of funds.

In September 2005, EKPC submitted to CFC a loan application in the amount of $275,000,000 for the front-end financing for the engineering and construction of five combustion turbines to be located at the J.K. Smith Plant Site. CFC approved this loan in November 2005. In September 2007, the loan amount was amended to $180,000,000 as a result of a decision to decrease the number of combustion turbines to be purchased for the facility to two. As of December 31, 2008, $130,000,000 of this amount remained to be advanced.

In February 2007, EKPC was approved to receive funds up to an amount of $20,986,000 to finance certain qualified renewable energy projects, specifically landfill gas to energy projects, with Clean Renewable Energy Bonds ("CREBs"). This total amount was revised to $8,613,049 in January 2008. Advances on this loan are subject to certain conditions outlined by CFC and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2008, $1,277,400 of this amount remained to be advanced.

In July 2008, the Cooperative submitted to RUS a loan application in the amount of $152,716,000 for various transmission projects. This loan has not been approved by RUS.

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5% per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act. As of December 31, 2008 and 2007, the Cooperative's cushion of credit account balance was $478,832 and $0, respectively.

The interest rate on the Series 1984B Pollution Control Bonds is subject to change weekly and the interest rate on the Series 1984J Pollution Control Bonds and the Series 1993B Solid Waste Disposal Revenue Bonds are subject to change semiannually. The interest rate adjustment period on any series of the above-mentioned variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis or to a fixed-rate basis, at the option of the Cooperative.

Long-term pollution control and solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds. Debt service reserve requirements are as follows: Series 1984B — $12,717,000; Series 1984J — $5,368,000; and Series 1993B — $1,062,000. In addition, mandatory sinking fund payments are required for each series as follows: Series 1984B — payments range from $8,800,000 in 2009 to $13,150,000 in 2013; Series 1984J — payments range from $3,910,000 in 2009 to $4,325,000 in 2010; and Series 1993B — payments range from $400,000 in 2009 to $700,000 in 2023. Debt service reserve and construction funds are held by trustees and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in investment securities available for sale and have a fair value of approximately $22,015,000 at December 31, 2008.

Estimated maturities of long-term debt for the five years subsequent to December 31, 2008 are as follows: 2009 — $71,517,000; 2010 — $75,702,000; 2011 — $79,382,000; 2012 — $75,342,000; 2013 — $73,787,000; and thereafter — $2,081,707,000.

Under the terms of the loan agreements with RUS, CFC and institutional investors, the Cooperative is required to maintain certain levels of members' equities, interest coverage, and debt service coverage, all of which were met at December 31, 2008.

Substantially all assets are pledged as collateral for first mortgage notes payable to the United States of America (RUS and FFB) and CFC.

As of December 31, 2008, the Cooperative has $3,100,000 outstanding in a letter of credit with the Commonwealth of Kentucky for Worker's Compensation.

As of December 31, 2008, the Cooperative has pledged securities of $2,000,000 with the United States Department of Labor for Federal Longshore Harbor Workers and the Commonwealth of Kentucky.

7. RETIREMENT BENEFITS

Pension Plan — Pension benefits for employees hired prior to January 1, 2007, are provided through participation in the National Rural Electric Cooperative Association's Retirement and Security Program, a multi-employer defined benefit plan. The Cooperative's required contributions were approximately $6,592,000 and $8,968,000 for 2008 and 2007, respectively. The Cooperative expects to contribute approximately $7,540,000 to the plan in 2009.

Effective January 1, 2008, the Cooperative revised its defined benefit plan by reducing the benefit level from 2.0% with a cost of living adjustment to 1.8% without a cost of living adjustment. This revision will apply to all employees currently participating in the defined benefit plan.

Retirement Savings Plan — The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. For employees hired prior to January 1, 2007, the Cooperative makes matching contributions to the account of each participant up to 2.0% of the participant's compensation. For employees hired on or after January 1, 2007, the Cooperative will automatically contribute 6.0% of base wages and match the employee contribution up to 4.0%. The Cooperative contributed approximately $879,000 and $790,000 to the plan in 2008 and 2007, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative. The Cooperative expects to contribute approximately $718,000 to the plan in 2009.

Supplemental Death Benefit Plan — The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the consolidated financial statements.

Postretirement Medical Benefits — The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50% of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan. The plan is not funded.

As a result of adopting FASB Statement 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158), in 2008, the Cooperative recorded an unrecognized loss related to changes in actuarial valuation assumptions and prior service costs. The loss totaling $2,200,000 was recognized in other comprehensive income.

The following sets forth the accumulated post-retirement benefit obligation, the change in plan assets, and the component of accrued post-retirement benefit cost and net periodic benefit cost as of December 21, 2008 and 2007 (dollars in thousands):

	2008	2007
Accumulated post-retirement benefit obligation — beginning of year	$38,917	$ 38,227
Service cost	1,315	1,292
Interest cost	2,367	2,245
Plan participant's contributions	705	638
Actuarial (gain)/loss	1,566	(2,210)
Benefits paid	(1,530)	(1,275)
Accumulated post-retirement benefit obligation — end of year	$43,340	$ 38,917
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	825	638
Plan Participants' contributions	705	638
Benefits paid	(1,530)	(1,276)
Fair value of plan assets — end of year	$ -	$ -
Funded status	$43,340	$ 38,917
Unrecognized net actuarial gain	9,937	12,137
Net amount recognized	$53,277	$ 51,054
Funded status	$43,340	$ 38,917
Current liabilities	1,038	-
Noncurrent liabilities	$42,302	$ 38,917
Service cost	$ 1,315	$ 1,292
Interest cost	2,367	2,245
Amortization of net actuarial gain	(634)	(509)
Net periodic benefit cost	$ 3,048	$ 3,028
Net amount recognized (included in other comprehensive income)	$ (2,200)	
Amounts in other comprehensive income expected to be realized in 2009: Actuarial gain	$ 448	

The discount rate used in determining the accumulated postretirement benefit obligation for 2008 and 2007, was 6.0% and 6.25%, respectively.

The Cooperative expects to contribute approximately $1,038,000 to the plan in 2009.

The following expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

For the Year Ended December 31	
2009	$ 1,038
2010	1,164
2011	1,297
2012	1,461
2013	1,623
2014–2018	10,883
Total	$ 17,466

For measurement purposes, a 10.0% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2008. The rate is assumed to decline to 5.0% after five years.

The health care cost trend rate assumption has a significant effect on the amounts reported (dollars in thousands).

	2008	2007
Effect on total of service cost and interest cost components (dollars in thousands):		
1-percentage-point increase	$ 816	$ 759
1-percentage-point decrease	(636)	(587)
Effect on postretirement benefit obligation (dollars in thousands):		
1-percentage-point increase	8,512	7,231
1-percentage-point decrease	(6,756)	(5,771)

8. COMMITMENTS, EXPENDITURES AND CONTINGENCIES

The Cooperative has entered into long-term power purchase agreements having minimum payment obligations for one year subsequent to December 31, 2008, as follows (dollars in thousands):

2009	$ 21,256

The Cooperative is committed to purchase coal for its generating plants under long-term contracts having minimum purchase obligations as follows (dollars in thousands):

2009	$ 194,853
2010	177,283
2011	141,177
2012	89,764
2013	33,765

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price re-openers.

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1,000,000 for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the consolidated financial statements.

During 2007, the Cooperative settled two lawsuits with the U.S. Environmental Protection Agency (EPA) resulting in the execution of two Consent Decrees discussed below.

On January 28, 2004, the EPA sued the Cooperative alleging that physical or operating changes to three coal-fired generators resulted in simultaneous violations of the Prevention of Significant Deterioration provision of the Clean Air Act; the New Source Performance Standards of the Clean Air Act; and the State Implementation Plan for Kentucky, as approved by EPA.

The parties executed a Consent Decree (NSR Consent Decree), which was lodged of record in U.S. District Court on July 5, 2007. The United States Department of Justice received public comments on the NSR Consent Decree for 30 days from July 5, 2007. The Federal Judge for the Eastern District of Kentucky entered the NSR Consent Decree on September 24, 2007.

Under the terms of the NSR Consent Decree, the Cooperative paid $750,000 in civil penalties to the EPA, agreed to install certain emissions monitoring equipment and controls, and agreed to report emissions. In the event the Cooperative does not comply with the provisions of the NSR Consent Decree, the EPA may assess certain penalties. The Cooperative has complied with the NSR Consent Decree; no additional accruals are required relating to this matter.

On January 17, 2006, the Cooperative received a Notice of Violation (NOV) from the EPA alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units 1 and 2. At issue was EPA's allegation that the Cooperative incorrectly reported the turbine, rather than the generator, nameplate ratings, thus placing the Units under the Acid Rain Program. On February 10, 2006, the Cooperative received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's covered the years 2000 through 2004.

The parties executed a Consent Decree (Acid Rain Consent Decree) which the United States Department of Justice lodged on September 20, 2007, and subsequently entered after the 30-day public comment period on November 30, 2007.

Under the terms of the Acid Rain Consent Decree, the Cooperative must make six annual payments of $1,900,000 (Fixed Penalty Payment), totaling $11,400,000. The Cooperative made the second installment of this fixed penalty payment in December 2008. In addition to the Fixed Penalty Payment, the Cooperative is subject to a Contingent Penalty Payment for a period of five years, based on audited consolidated financial statements for the years 2008 through 2012. The Cooperative will be subject to the Contingent Penalty Payment if certain financial ratios are achieved. The Cooperative has currently reserved approximately $17,021,000 for such contingent penalty payments. In December 2007, based on the terms of the Acid Rain Consent Decree, the Cooperative surrendered 4,107 NOx allowances and 15,311 SO_2 allowances. Liabilities and margin impacts relating to complying with this Acid Rain Consent Decree are included in the consolidated financial statements.

In September 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at Spurlock Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $528,000,000. This unit went into commercial operation on April 1, 2009.

In November 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at the J.K. Smith Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $800,000,000.

In December 2004, the Board approved the construction of five gas-fired combustion turbines to be located at the Cooperative's J.K. Smith Power Station. Construction of three of the combustion turbines has been deferred until after 2009. The first two combustion turbines are expected to cost approximately $155,000,000 and are scheduled to become operational in 2009.

In September 2005, the Board approved construction of a new limestone scrubber with a wet precipitator for Spurlock Unit 2 at a cost of approximately $207,000,000. This scrubber went into commercial operation January 1, 2009.

In January 2006, the Board approved the construction of a new limestone scrubber with a wet precipitator for Spurlock Unit 1 at a cost of approximately $173,000,000.

The construction projects mentioned above are subject to PSC approval.

In December 2006, Warren Rural Electric Cooperative Corporation ("Warren") decided not to become a member of the Cooperative. In 2007, the Cooperative reached a settlement with Warren. This settlement resulted in a $3,200,000 write-off that is included in the consolidated financial statements.

9. REGULATORY ASSETS AND LIABILITIES

SFAS 71 applies to regulated entities for which rates are designed to recover the costs of providing service. In accordance with this statement, certain items that would normally be reflected in the Consolidated Statements of Revenue and Expenses are deferred on the Consolidated Balances Sheets. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process. During 2008, the Cooperative recorded a regulatory asset of $12,301,000 related to unrecorded forced outage replacement power costs incurred during 2008 that are included in their 2009 rate case. The PSC approved a three-year amortization period beginning in April 2009.

Regulatory Assets (Liabilities) were comprised of the following as of December 31, 2008 and 2007:

	2008	2007 (Restated)
Deferred outage costs	$ 12,301	$ -
Fuel adjustment clause	1,774	5,928
Environmental cost recovery	(4,060)	(2,265)
	$ 10,015	$ 3,663

* * * * * *

EAST KENTUCKY POWER COOPERATIVE

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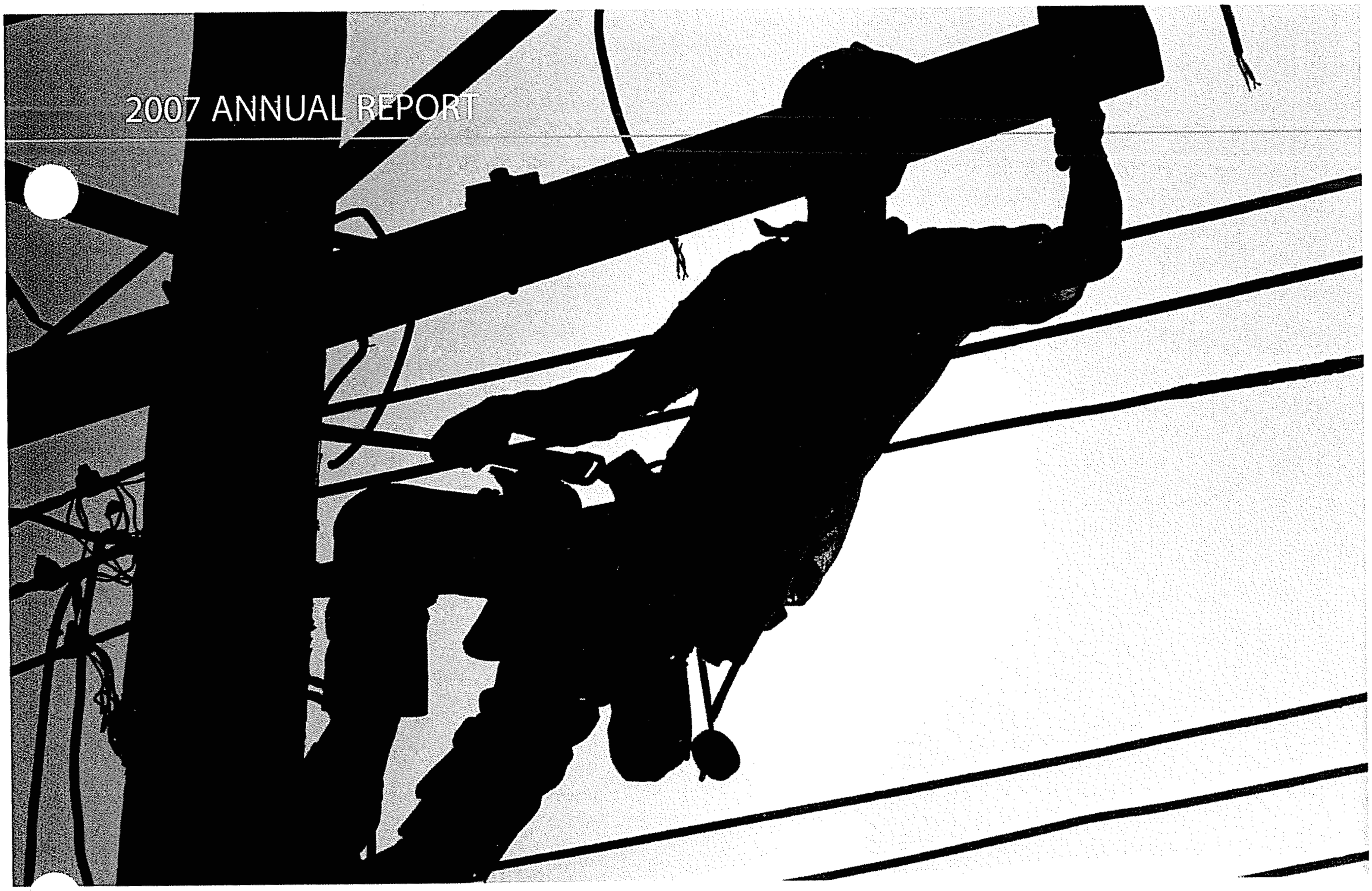
EAST KENTUCKY POWER COOPERATIVE

East Kentucky Power Cooperative, Inc.

2007 Annual Report



EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy® Cooperative

East Kentucky Power Cooperative

East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving 511,000 Kentucky homes, farms, businesses and industries across 87 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.

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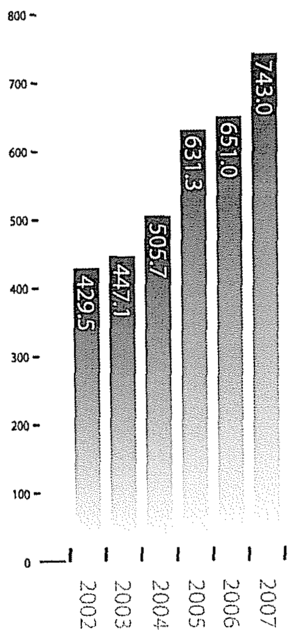
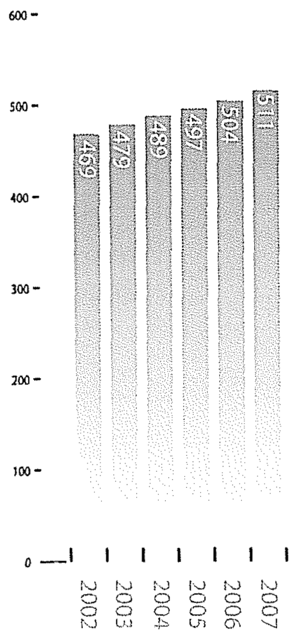
Operating Revenue

in $Millions



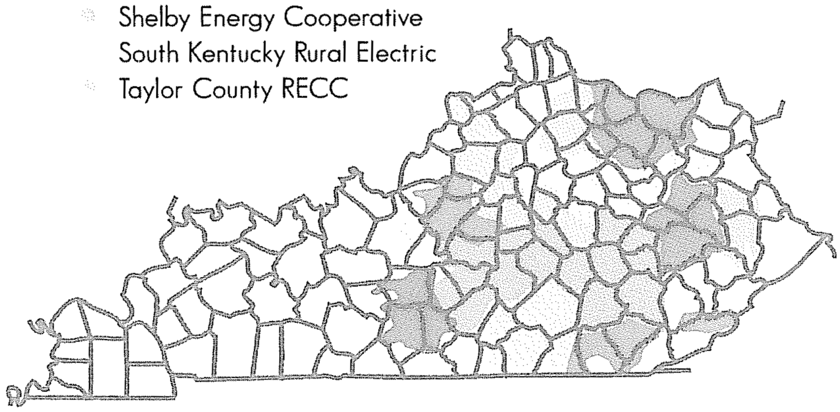
Member Consumer Meters

Year-End in Thousands



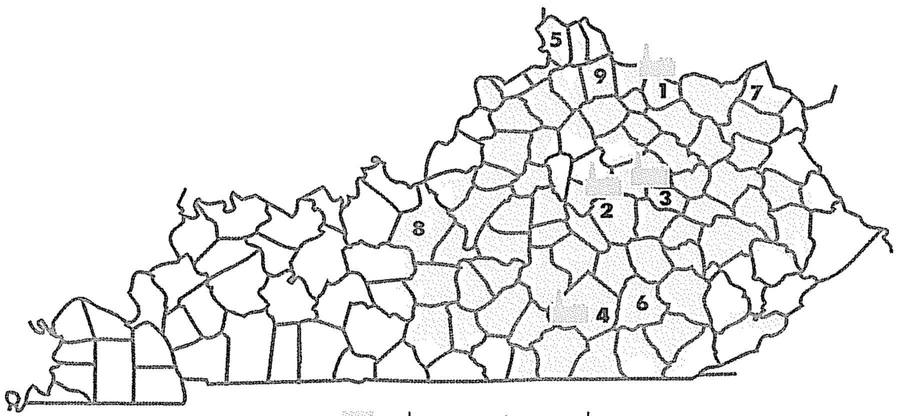
The 16 distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	1,118 net MW
2	Dale	196 net MW
3	Smith Combustion Turbine Units	Summer 626 net MW Winter 842 net MW
4	Cooper	341 net MW
Landfill Gas Plants		
5	Bavarian	3.2 net MW
6	Laurel Ridge	4.0 net MW
7	Green Valley	2.4 net MW
8	Pearl Hollow	2.4 net MW
9	Pendleton	3.2 net MW
Southeastern Power Adm. (SEPA), hydro power		170 MW



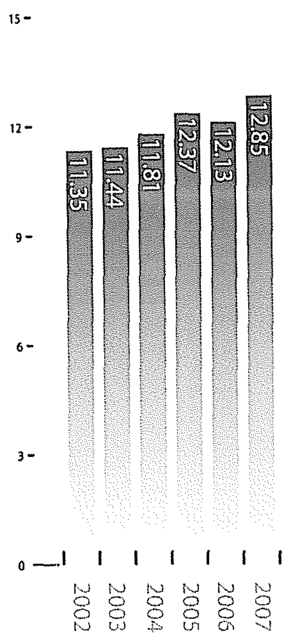
EAST KENTUCKY POWER COOPERATIVE

Financial Highlights (Dollars in Thousands)

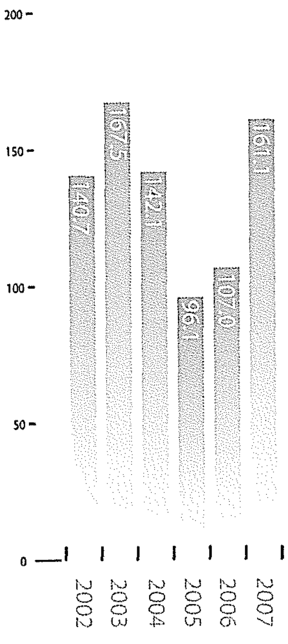
	2007	2006	% Increase
Operating Revenue	**$743,026**	$650,960	14.1
Operating Expenses	**$638,533**	$573,750	11.3
Net Margin	**$41,920**	$11,174	275.2
Fuel Expenses for Generation	**$293,756**	$278,210	5.6
Purchased Power Cost	**$120,381**	$76,781	56.8
Interest Cost	**$102,986**	$84,834	21.4
Members' Equities	**$161,139**	$107,033	50.6
Construction Expenditures	**$421,809**	$290,463	45.2
Assets	**$2,358,003**	$2,030,092	16.2
Sales to Member Cooperatives (MWh)	**12,851,620**	12,129,402	6.0
System Peak Demand (MW)			
Winter Season	**3,033** *	2,859	6.1
Summer Season	**2,487**	2,339	6.3
Number of Member System Consumers	**511,371**	504,492	1.4

* set January 25, 2008

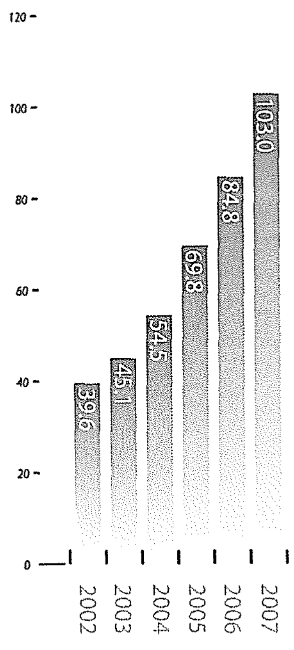
Energy Sales to Members
MWh in Millions



Members' Equities
Year-End in $Millions



Interest Cost
in $Millions

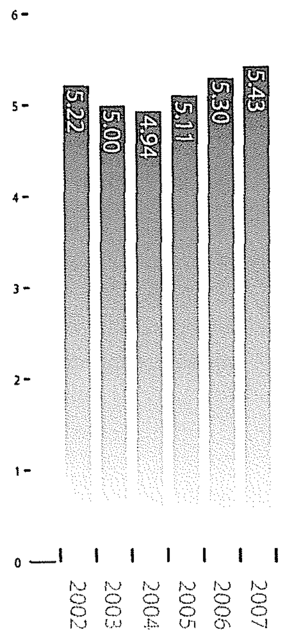


Five-Year Statistical Summary

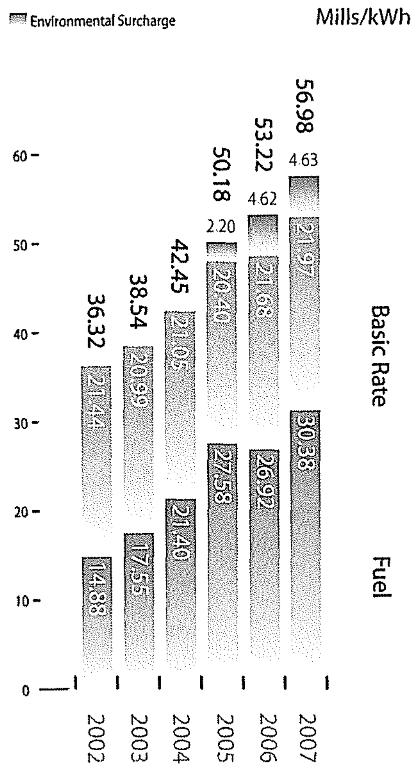
	2007	2006	2005	2004	2003
Net Margins (Deficit) - $1,000	$41,920	$11,174	($46,007)	($27,267)	$29,398
TIER	1.41	1.13	0.34	.49	1.66
DSC	1.15	0.98	0.66	0.72	1.35
Fuel Expense - $1,000	$293,756	$278,210	$263,434	$173,506	$137,103
Construction Expenditures -$1,000					
Generation	$387,816	$222,722	$131,756	$166,351	$221,949
Transmission	$33,802	$62,638	$26,987	$35,818	$27,101
General	$191	$5,103	$3,864	$2,846	$12,762
Investment In Facilities - $1,000					
Original Cost	$2,925,546	$2,482,319	$2,192,259	$2,025,314	$1,810,211
Long-Term Debt - $1,000	$1,955,039	$1,643,305	$1,339,263	$1,223,164	$952,987
Total Assets - $1,000	$2,358,003	$2,030,092	$1,687,894	$1,558,561	$1,328,532
Number of Employees - Full-Time	620	620	635	629	599
Cost of Coal Purchased					
$/ton	$51.06	$55.82	$49.95	$43.24	$34.13
$/MBtu	$2.17	$2.35	$2.09	$1.78	$1.39
Amount of Coal Purchased - tons	4,788,727	4,788,437	4,559,035	3,859,339	3,615,196
Generation - MWh	11,493,588	11,197,632	11,105,626	9,046,449	9,061,760
System Peak Demand - MW					
Winter Season	3,033	2,859	2,642	2,711	2,589
Summer Season	2,487	2,339	2,227	2,041	1,996
Sales to Other Utilities - MWh	154,743	77,010	144,197	53,466	71,224
Member Load Growth - %					
Energy	6.0	(1.9)	4.7	3.2	0.7
Demand	5.3	1.3	6.2	4.0	(0.6)
Load Factor - %	51	50	52	51	51
Miles of Line	2,704	2,673	2,663	2,638	2,629
Installed Capacity - kVA	9,066,866	9,010,066	8,919,666	8,863,666	8,824,466
Distribution Substations	333	321	311	304	299

Average Interest Rate on Long-Term Debt Year-End

Average %



Power Cost to Members



MAKING PROGRESS, FACING CHALLENGES AHEAD

Though 2007 emerged as a challenging year, EKPC achieved key goals set at the beginning of the year to streamline the organization and strengthen its financial condition.

To streamline the organization, EKPC reduced the number of senior staff from 10 to five. An independent consulting firm developed 136 recommendations to reorganize and improve work throughout the organization, and EKPC implemented most of those recommendations.

Other accomplishments included ending costly and time-consuming litigation by settling two lawsuits filed by the U.S. Environmental Protection Agency. We also successfully negotiated Warren Rural Electric's withdrawal from our organization.

In order to strengthen finances, EKPC renewed an aggressive cost containment initiative, which included appointing five teams to make recommendations to significantly reduce costs. These efforts will be ongoing in an attempt to increase competitiveness and save millions of dollars in costs by 2011.

Net margin in 2007 was $41.9 million, which rose significantly from the $11.2 million net margin recorded the previous year.

The savings derived from our cost-containment campaign became essential when the Kentucky Public Service Commission announced late last year that EKPC could make permanent the $19 million annual rate increase that the cooperative began collecting in April 2007 on an interim basis.

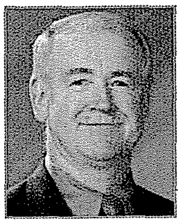
As we look ahead to 2008 and beyond, it will again be critical to demonstrate the ability to meet financial obligations and raise our equity positions in order to obtain the financing necessary to meet future construction needs.

Those needs include plans to spend more than $2 billion to complete new baseload generating plants (including Spurlock Unit #4 and Smith Unit #1) and modify existing facilities to meet increasingly strict emissions standards. Timely completion of these projects is essential for our customers, and they present a huge challenge for our organization.

We must continue to focus our efforts on being as efficient and effective as possible while keeping our existing fleet operating at maximum capacity.

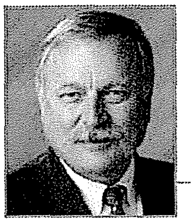
EKPC will continue to look for ways to expand coal blending and use alternate fuels to contain costs. We will also continue to explore options on joint power supply with other utilities.

Our organization will continue to build upon the improvements made in 2007, united behind determined efforts to achieve our long-term goals and meet the challenges ahead.



Robert M. Marshall

Bob Marshall
President and CEO



Bob Marshall
President and CEO

Wayne Stratton
Chairman of the Board

YEAR IN REVIEW

Public Service Commission grants rate increase

In December 2007, the Kentucky Public Service Commission (PSC) said EKPC could make permanent a rate increase that the PSC approved in April on an interim basis.

The rate increase amounted to approximately 2 percent for retail members, or about $1.50 to $2 per month for the average residential retail member served by one of EKPC's 16 member cooperatives. The wholesale rate increase will generate about $19 million in additional annual revenue.

Cooper Station adopts plan to mitigate low water

In December 2007, the PSC approved modifications at EKPC's Cooper Station to ensure continued operation of the plant at lower Lake Cumberland levels. The $24 million plan — to be offset somewhat by a $3 million government grant awarded in December 2007 — included the construction of a cooling tower and the deployment of supplemental water pumps.

Settlements with federal government announced

In September 2007, EKPC announced an $11.4 million settlement with the federal government to be paid over six years, resolving alleged violations of the Clean Air Act. The lawsuit alleged that EKPC's Dale #1 and Dale #2 generating units in Clark County should have been included in the government's regulatory programs for emissions of sulfur dioxide and nitrogen oxide. Under the existing settlement, additional penalties may be assessed in the future, depending upon EKPC margins.

In addition, EKPC maintained it had been and remains in compliance with the Clean Air Act. The agreement resulted from more than a year of negotiations between the U.S. Department of Justice, the U.S. Environmental Protection Agency (EPA) and EKPC.

In July 2007, a settlement was reached with the federal government to resolve a lawsuit that alleged New Source Review violations of the Clean Air Act. The settlement called for EKPC to pay a $750,000 civil penalty.

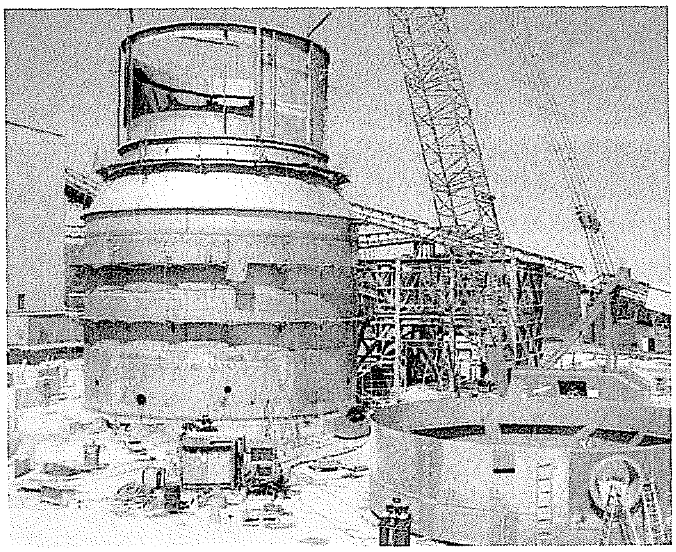
As part of the settlement, EKPC pledged to construct projects to further reduce emissions from its power plants at an estimated cost of $656 million over the next five to seven years.

Spurlock Unit #4 air permit affirmed, construction continues

The Kentucky Environmental and Public Protection Cabinet in September of last year affirmed approval of the air permit for Spurlock Unit #4, EKPC's second clean coal unit, which crews began constructing in mid-June 2006.

At peak construction in the summer and fall of 2007, nearly 1,000 construction workers were building the unit at Spurlock Station.

The project, scheduled for completion by April 2009, will be identical to Spurlock Station's Gilbert Unit, which came on-line in 2005. Using a cutting-edge technology known as the circulating fluidized bed (CFB) process, Unit #4 will produce 98 percent less sulfur dioxide and 80 percent less nitrogen oxide than conventional coal plants. The 278-megawatt unit will rank among the cleanest coal generating units in the nation.



EKPC is in the midst of one of the busiest periods in its history, with approximately $2 billion in ongoing or planned construction.

Scrubber construction underway

Construction of two scrubbers that remove sulfur dioxide emissions continued at Spurlock Station, with the Unit #2 scrubber scheduled to go into service in fall 2008. The Unit #1 scrubber is expected to be completed in spring 2009.

Stack construction at Spurlock Station

In May 2007, work began on the first of two new 650-foot stacks at Spurlock Station designed to handle additional moisture from the scrubbers that are being added to Units #1 and #2.

Work began in May 2007 on the new Unit #2 stack and should be completed by July 2008. Construction on the new Spurlock #1 stack is scheduled to last until January 2009. Once the new stacks are completed, the emissions from the generating units will be re-routed to the new structures from the existing stacks.

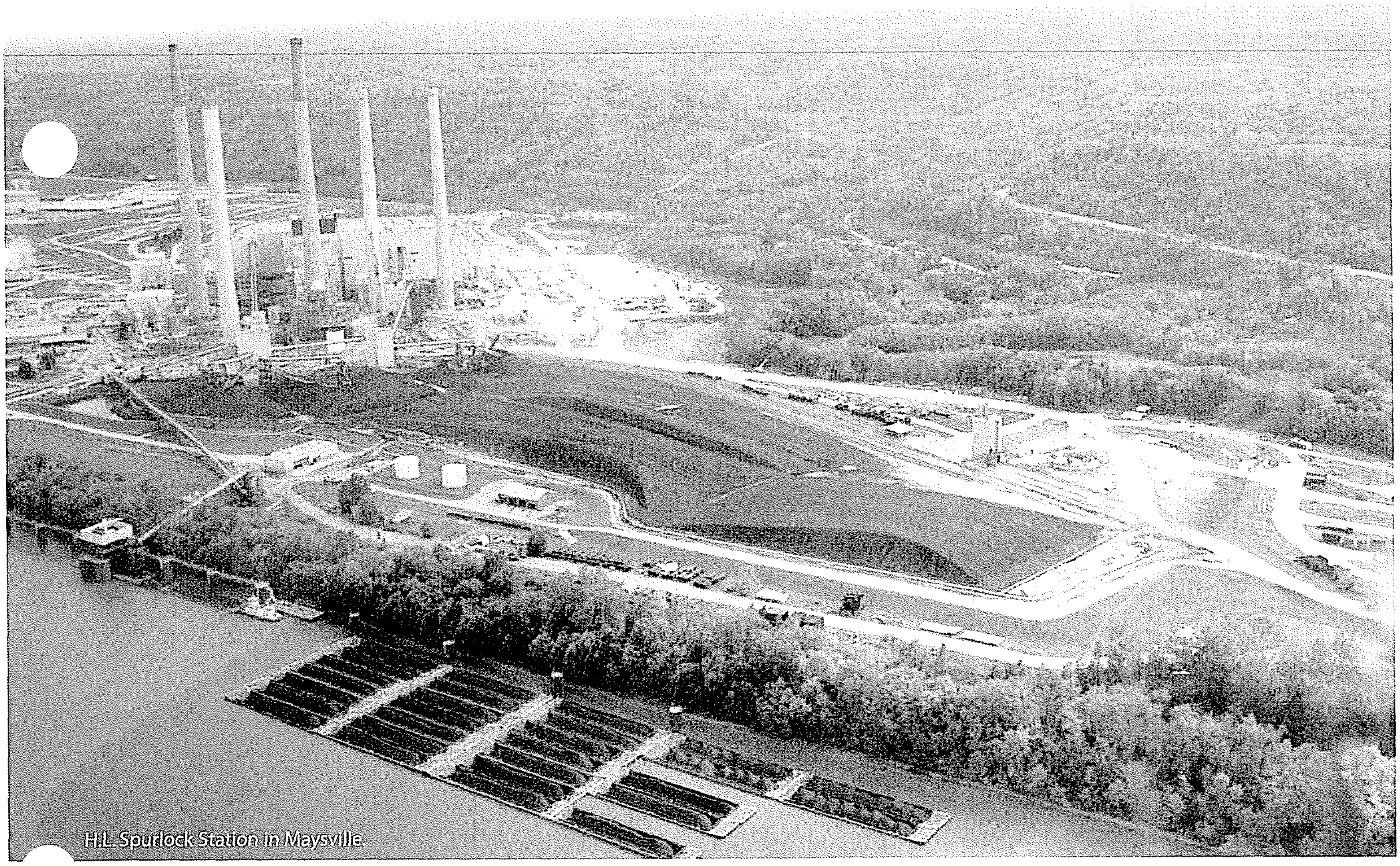
Dale Unit #3 undergoes first overhaul in more than a decade

A major turbine/generator overhaul to Dale Station's Unit #3 got underway in October 2007 and was finished ahead of schedule.

During the eight-week outage, plant technicians rebuilt turbine and control valves and replaced regeneration tubes in the boiler. Unit #3's last major overhaul took place 11 years ago. During the procedure, technicians also installed low nitrogen oxide burners on Dale units #1 and #2.

Public Service Commission approves Smith Unit #1

The PSC in August granted EKPC a certificate of need for construction of the 278-megawatt coal-fired unit at J.K. Smith Station in Clark County. Smith Unit #1 needs the air permit and federal environmental approval from the Rural Utilities Service in order for EKPC to begin construction.



H.L. Spurlock Station in Maysville

EKPC signs combustion turbine contract

In 2007, EKPC signed a contract with General Electric to add combustion turbine units #8 and #9 at J.K. Smith Station in Clark County.

EKPC is awaiting final regulatory approvals, but the target commercial date for the units is summer 2009.

Forest management program proposed

EKPC developed a forest management plan to mitigate noise and promote stewardship at J.K. Smith Station. Under the plan, thousands of trees native to Kentucky were planted to enhance the environment and reduce noise from the plant.

Plan for 36-mile power line approved

The PSC in September 2007 approved EKPC's plans for a 36-mile, 345-kilovolt electric transmission line in Clark, Garrard and Madison counties. About three-quarters of the proposed route will be co-located with existing transmission lines by either rebuilding existing lines or constructing a new line beside existing lines. EKPC began construction on the line in 2008 and will have the line in service in 2009.

Other line work got underway in March 2007 when EKPC began constructing a new distribution substation and approximately four miles of 69-kilovolt transmission line to serve Edmonton Industrial Park in Glasgow, Ky. The project, constructed by EKPC in partnership with Farmers RECC and the City of Edmonton, will provide enhanced electric service to the industrial park.

Board approves North Star budget
In December 2007, EKPC's Board approved a budget with specific targets to increase rate competitiveness. Management also adopted targeted goals for unit availability, safety, transmission reliability and cash flow.

EKPC, MISO sign re-dispatch agreement
The Midwest Independent System Transmission System Operator (MISO) and EKPC in May 2007 entered into an agreement that will help alleviate transmission constraints. The agreement had an initial one-year term but will renew automatically unless terminated by one of the parties.

The Touchstone Energy All "A" Classic is a popular annual tournament that gives thousands of students from Kentucky's smaller high schools the opportunity to showcase both athletic and academic talents.

Under the agreement, the MISO agrees to compensate EKPC when the cooperative agreed to re-dispatch units to accommodate some of the MISO's power flows.

Unit generation figures
In 2007, EKPC posted generation of 11.5 million net megawatt hours (MWh). Dale Station generated 1.0 million net MWh. Cooper Station generated 2.0 million net MWh, while Spurlock Station produced more than 8.0 million net MWh and Smith Station generated 378,475 net MWh. EKPC's five landfill gas plants combined for a total generation of 93,452 net MWh in 2007.

System transmission construction continues
During 2007, EKPC built 39 miles of new transmission lines. Throughout the year, crews also completed 72.36 miles of line upgrades and re-conductoring.

2007 Touchstone Energy All "A" Classic awards scholarships to Kentucky students
Students from Kentucky's smallest high schools again showcased their talents in basketball, cheerleading, music, art, baseball, softball and ROTC drill teams during a variety of events throughout the year.

In addition, 70 Kentucky high school seniors were each awarded a $1,000 scholarship, which they can apply toward any Kentucky post-secondary school.

EKPC's landfill gas plants produce clean, renewable energy.

EKPC's fifth landfill gas power plant debuts

EKPC began operating its fifth renewable power plant fueled by landfill gas in February 2007. The plant, located at the Pendleton County Landfill, produces 3.2 megawatts of electricity, enough clean, renewable power to supply about 1,900 Kentucky homes.

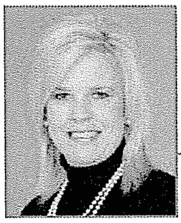
EKPC's other landfill gas plants are located at Bavarian Landfill (near Walton, Ky.), Green Valley Landfill (near Grayson, Ky.), Laurel Ridge Landfill (near London, Ky.) and Pearl Hollow Landfill (near Elizabethtown, Ky.). Together, these plants generate about 15 megawatts of power, or enough to supply about 9,000 Kentucky homes.

Blue Grass Energy wins team award at Lineman's Rodeo

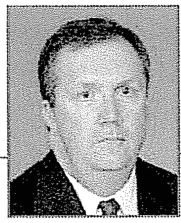
Nicholasville, Ky.-based Blue Grass Energy won in the overall team competition at the third annual Kentucky Lineman's Rodeo, held in July 2007 at EKPC headquarters. Twenty-one teams representing 13 Kentucky cooperatives competed at the event.

EXECUTIVE STAFF

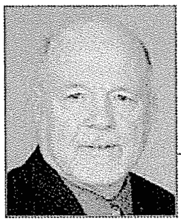
Coordinates strategic initiatives with day-to-day operations to further the goals of the company.



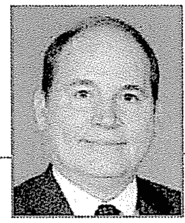
Stacy Barker
Corporate Services



Jim Lamb
Power Supply



Dave Eames
Finance



John Twitchell
G&T Operations

David Smart
Legal

Financial Highlights

Results of Operations

Operating revenues for the twelve months ended December 31, 2007 increased approximately $92.1 million compared to the same period in 2006. As a result of cold weather in early 2007 and unusually warm weather in the summer and fall, MWh sales to members increased 6.0 percent over the previous year. Through December 31, 2007, demand and energy revenue to members increased $79.3 million over the same period in 2006. In January 2007, EKPC filed an Application for General Adjustment in Electric Rates with the PSC. The PSC granted EKPC interim rate relief of $19 million as of April 1, 2007. This interim rate relief was made permanent by the PSC in December 2007. The PSC allows electric utilities to recover fuel and purchased power costs through a fuel adjustment clause and to recover Federal Clean Air Act compliance costs through an environmental surcharge. For the twelve-month period ended December 31, 2007, fuel adjustment clause revenue and environmental surcharge revenue increased $3.6 million and $3.4 million, respectively, over the same period last year.

During 2007, EKPC settled two lawsuits with the EPA. The first lawsuit alleged physical or operating changes to three coal-fired generators resulted in simultaneous violations of various aspects of the Clean Air Act. EKPC and the EPA executed a consent decree. EKPC agreed to pay $750,000 in civil penalties, install certain emissions monitoring equipment, and report emissions. The second lawsuit alleged technical violations of the Clean Air Act Acid Rain program, and provisions of the NOx State Implementation Plan at Dale Units 1 and 2. The issue for both units involved whether these units were subject to regulations as generators having a "nameplate" capacity greater than 25 megawatts and/ or were generators used to generate 25 megawatts or more of electricity. EKPC and the EPA executed a second consent decree. EKPC agreed to make six annual payments of $1.9 million in fixed penalties, the first of which was paid in December 2007. EKPC is subject to a contingent penalty payment if certain financial ratios are achieved in 2008 through 2012. EKPC also surrendered certain NOx and SO2 allowances.

Production Operating Expense, which includes fuel, other production and purchased power, are categories that should be considered together for comparative purposes. On an hour-to-hour basis, EKPC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economic source. Because of the weather conditions throughout 2007, EKPC ran its combustion turbines for peaking purposes. Natural gas usage through December 31, 2007 increased $18.0 million over the twelve months ended December 31, 2006. Because of the weather and the growth in the EKPC system, EKPC must purchase power to meet member needs. Purchased power costs for the twelve-month period ended December 31, 2007 have increased $43.6 million over the same period in 2006.

Generation of Power

EKPC has coal fired generating facilities at Dale Station in Clark County, Cooper Power Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units is supplemented during peak times by combustion turbines at the Smith Generating Facility in Clark County. EKPC's generating facilities produced 11.5 million megawatt-hours in 2007, compared with 11.2 million in 2006.

EKPC's power stations burned 4.82 million tons of coal in 2007, compared with 4.71 million tons in 2006. The cost of coal burned during 2007 was $2.181 per million Btu, or $50.94 per ton. The cost of coal purchased during 2007 was $2.173 per million Btu or $51.06 per ton.

The combustion turbines at the Smith Generating Facility consumed 433,574 gallons of oil with a cost of $1.016 per gallon or $7.330 per million Btu. The combustion turbines also consumed 4,944,186 MCF of natural gas with a cost of $8.37 per MCF.

Interest Costs

Gross interest expense was $103.0 million. The prime rate decreased from 8.25 percent to 7.25 percent during 2007. During the year, Federal Financing Bank (FFB) interest rates for long-term advances increased from 4.17 to 5.30 percent.

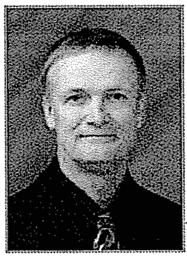
Of the total $2,016.2 million debt outstanding, current interest rates range from a low of 2 percent to a high of 10.66 percent for 2007. The average annual rate on all debt increased from 5.3 percent in 2006 to 5.4 percent in 2007.

Virtually all of EKPC's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $98.5 million of pollution control and solid waste disposal revenue floating/fixed rate bonds is being kept in the variable rate mode. This rate averaged 3.68 percent for 2007.

OPERATIONS, SERVICES & SUPPORT COMMITTEE

Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs and other corporate functions.

BOARD MEMBERS

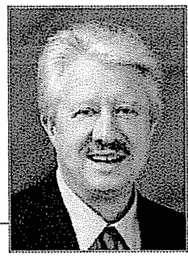


P.D.
Depp

Taylor County RECC

Bill
Rice

Grayson RECC



Wade
May

Big Sandy RECC

Randy
Sexton

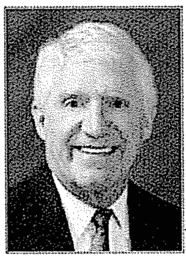
Farmers RECC

Lonnie
Vice

Fleming-Mason Energy

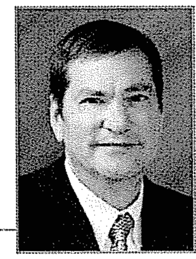
Vice-Chairman

SYSTEM MANAGERS



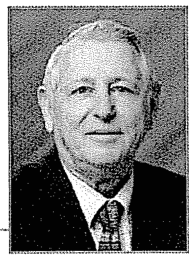
Dan
Brewer

Blue Grass Energy



Larry
Hicks

Salt River Electric



Bob
Hood

Owen Electric

Kerry
Howard

Licking Valley RECC

Debbie
Martin

Shelby Energy

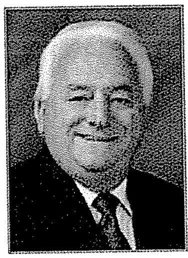
Jim
Jacobus

Inter-County Energy

FUEL & POWER SUPPLY COMMITTEE

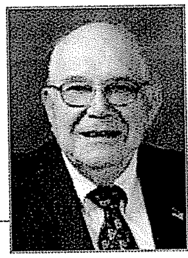
Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS



Licking Valley RECC

Mike
Adams



Blue Grass Energy

E.A.
Gilbert

Owen Electric

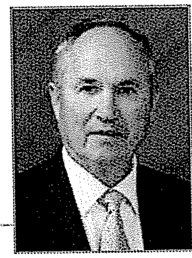
Hope
Kinman

Salt River Electric

Jimmy
Longmire

Cumberland Valley Electric

Elbert
Hampton



Nolin RECC

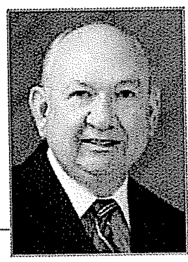
Secretary-Treasurer

A.L.
Rosenberger

SYSTEM MANAGERS

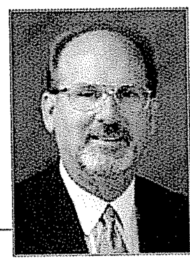
South Kentucky Rural Electric

Allen
Anderson



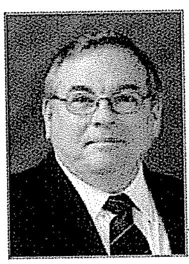
Clark Energy

Paul
Embs



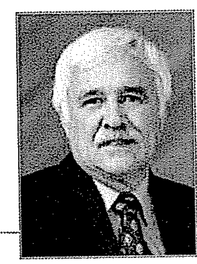
Taylor County RECC

Barry
Myers



Jackson Energy

Don
Schaefer



Big Sandy RECC

Bobby
Sexton

POWER DELIVERY COMMITTEE

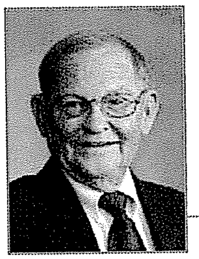
Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

BOARD MEMBERS

Wayne Stratton
Shelby Energy
Chairman

Fred Brown
Jackson Energy

Bill Shearer
Clark Energy

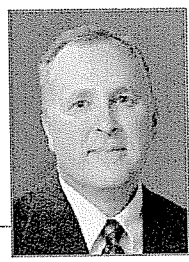


Danny Divine
Inter-County Energy

Tom Estes
South Kentucky Rural Electric

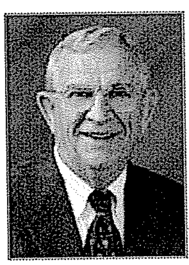
SYSTEM MANAGERS

Mickey Miller
Nolin RECC



Bill Prather
Farmers RECC

Carol Ann Fraley
Grayson RECC



Ted Hampton
Cumberland Valley Electric

Chris Perry
Fleming-Mason Energy

AUDIT COMMITTEE

Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS

Fleming-Mason Energy
Vice-Chairman

Lonnie
Vice

Clark Energy

Bill
Shearer

SYSTEM MANAGERS

Salt River Electric

Larry
Hicks

Jackson Energy

Don
Schaefer

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Crowe Chizek and Company LLC, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Crowe Chizek and Company LLC and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Crowe Chizek and Company LLC has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Robt M. Marshall

Bob Marshall
President and CEO

David G. Eames

David G. Eames
Chief Financial Officer

Crowe

REPORT OF INDEPENDENT AUDITORS

To the Audit Committee
East Kentucky Power Cooperative, Inc.
and Subsidiary

We have audited the accompanying consolidated balance sheets of East Kentucky Power Cooperative, Inc. and Subsidiary (the Cooperative) as of December 31, 2007 and 2006, and the related consolidated statements of revenue and expenses, changes in members' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of East Kentucky Power Cooperative, Inc. and Subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2008 on our consideration of East Kentucky Power Cooperative, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

In 2007, the Cooperative adopted Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit and Other Postretirement Plans, as discussed in Note 6.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Lexington, Kentucky
March 19, 2008

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
ASSETS		
Electric plant, at original cost		
In-service	$ 2,157,134	$ 2,079,932
Construction in progress	768,412	402,387
	2,925,546	2,482,319
Less accumulated depreciation	835,416	798,533
Electric plant, net	2,090,130	1,683,786
Long-term accounts receivable	5,681	7,428
Investment securities		
Available for sale	46,551	43,956
Held to maturity	8,195	8,216
Current assets		
Cash and cash equivalents	16,660	69,202
Accounts receivable	68,309	62,091
Fuel	43,868	44,682
Materials and supplies	39,205	37,129
Emission allowances	27,286	58,920
Other	2,782	3,130
Total current assets	198,110	275,154
Deferred charges	3,392	4,499
Other	5,944	7,053
Total assets	$ 2,358,003	$ 2,030,092
LIABILITIES AND MEMBERS' EQUITIES		
Members' equities	$ 161,139	$ 107,033
Long-term debt, excluding current portion	1,955,039	1,643,305
Current liabilities		
Current portion of long-term debt	61,137	57,782
Accounts payable	106,153	90,977
Accrued expenses	11,139	24,942
Total current liabilities	178,429	173,701
Accrued postretirement benefit cost	38,917	48,663
Other	24,479	57,390
Total liabilities and members' equities	$ 2,358,003	$ 2,030,092

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES

Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Operating revenue	$ 743,026	$ 650,960
Operating expenses		
Production		
Fuel	293,756	278,210
Other	116,882	113,382
Purchased power	120,381	76,781
Transmission and distribution	27,495	27,557
Depreciation	40,563	39,384
General and administrative	39,456	38,436
	638,533	573,750
Operating margins	104,493	77,210
Interest expense	102,986	84,834
Net operating margin (deficit)	1,507	(7,624)
Nonoperating margins		
Interest income	7,860	8,433
Allowance for interest on borrowed funds used during construction	22,275	9,192
Lawsuit settlements	9,443	-
Miscellaneous	700	858
	40,278	18,483
Capital credits and patronage capital allocations	135	315
Net margin	$ 41,920	$ 11,174

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income	Total Members' Equities
Balances, January 1, 2006	$ 2	$ 92,386	$ 3,035	$ 685	$ 96,108
Comprehensive income					
Net margin	-	11,174	-	-	11,174
Unrealized losses on investments available for sale	-	-	-	(249)	(249)
Total comprehensive income					10,925
Balances, December 31, 2006	2	103,560	3,035	436	107,033
Comprehensive income					
Net margin	-	41,920	-	-	41,920
Unrealized gains on investments available for sale	-	-	-	50	50
Total comprehensive income					41,970
Adoption of SFAS No. 158	-	-	-	12,136	12,136
Balances, December 31, 2007	$ 2	$ 145,480	$ 3,035	$ 12,622	$ 161,139

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Cash flows from operating activities		
Net margin	$ 41,920	$ 11,174
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	40,563	39,384
Amortization of loan costs	2,859	2,843
Changes in:		
Accounts receivable	(6,218)	15,572
Fuel	(21,343)	(19,237)
Materials and supplies	(2,898)	(4,034)
Emission allowances	41,650	(54,833)
Accounts payable, trade	82,767	43,810
Accrued expenses	(13,803)	4,108
Accrued postretirement benefit cost	2,390	2,059
Other	(46,902)	(18,609)
Net cash from operating activities	120,985	22,237
Cash flows from investing activities		
Additions to electric plant	(487,839)	(304,474)
Maturities and calls of securities available for sale	10	19,611
Purchases of securities available for sale	(2,555)	(21,235)
Maturities of securities held to maturity	21	21
Payments received on long-term accounts receivable	1,747	440
Net cash from investing activities	(488,616)	(305,637)
Cash flows from financing activities		
Proceeds from long-term debt	582,126	360,000
Principal payments on long-term debt	(267,037)	(51,261)
Net cash from financing activities	315,089	308,739
Net change in cash and cash equivalents	(52,542)	25,339
Cash and cash equivalents at beginning of year	69,202	43,863
Cash and cash equivalents at end of year	$ 16,660	$ 69,202

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 117,955	$ 82,183
Non-cash operating transaction		
Fuel included in accounts payable	$ 22,157	$ 13,791
Materials and supplies included in accounts payable	822	483
Transfer from accrued postretirement benefit cost to members' equities as a result of initial application of SFAS No. 158	$ 12,136	$ -
Transfer of emissions allowances from other liabilities	$ 10,016	$ -
Non-cash investing transaction		
Additions to electric plant included in accounts payable	$ 44,612	$ 14,414
Unrealized gains (losses) on securities available for sale	50	(249)

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Cooperative is engaged in generating and transmitting electrical power primarily to its sixteen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises.

Principles of Consolidation: The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Electric Plant: Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Provision for depreciation has been made on the basis of estimated useful lives at straight-line composite rates or end dates generally as follows:

Production plant	years 2019 - 2045
Transmission and distribution plant	0.71% - 3.42%
General plant	2.00% - 20.00%

Long-Term Assets: Electric plant and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2007 or 2006.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Interest on Borrowed Funds Used During Construction: In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000.

Investment Securities: Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity. Investment securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is not temporary.

Revenue and Fuel Costs: Revenue is recorded monthly based on meter readings made at month-end.

The PSC has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales.

The PSC has an environmental cost recovery mechanism that allows utilities to recover certain costs incurred in complying with the Federal Clean Air Act. This environmental surcharge is being billed on a percentage of revenue basis.

The PSC granted an interim increase in base rates of $19 million on an annualized basis for service rendered on and after April 1, 2007. The PSC made this interim increase permanent in December 2007.

The Cooperative's sales are primarily to its member cooperatives and amounted to approximately $732,348,000 and $645,476,000 for 2007 and 2006, respectively. Accounts receivable at December 31, 2007 and 2006 were primarily from billings to member cooperatives.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

At December 31, 2007 and 2006, individual account balances that exceeded 10 percent of total accounts receivable are as follows:

	2007	2006
Owen Electric Cooperative	$ 9,354,000	$ 8,748,000
South Kentucky RECC	-	6,408,000
Blue Grass Energy Cooperative	-	6,304,000

Cash and Cash Equivalents: For purposes of the consolidated financial statements, the Cooperative considers temporary investments having a maturity of three months or less when purchased to be cash equivalents.

At December 31, 2007 and 2006, respectively, the Cooperative had $589,690 and $1,205,394 of cash on deposit at one bank, which is in excess of federally insured limits.

Fuel and Materials and Supplies: Inventories of fuels and materials and supplies are stated at average cost.

Emission Allowances: Title IV of the Clean Air Act Amendments of 1990 provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants. Allowances are stated at cost. Issuances of allowances are recognized using a monthly weighted-average method of cost determination. Gains and losses are recorded upon the disposition of allowances.

Members' Equities: Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members. In addition, any available capital credits will also be allocated to members on a contribution-to-gross margins basis.

A provision in the Cooperative's bylaws prohibits the return of capital contributed by patrons unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 40 percent of total assets. In addition, provisions of certain loan agreements prohibit the retirement of capital until stipulated requirements as to liquid assets (cash and U.S. Government obligations) are met. Accordingly, at December 31, 2007, no patronage capital was available for refunds or retirement.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income includes both net margin (deficit) and other comprehensive income. Other comprehensive income represents the change in unrealized gains and losses on securities available for sale.

Income Taxes: The Cooperative is exempt under section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85 percent of its gross income is derived from members but is responsible for income taxes on certain unrelated business income.

Reclassifications: Certain 2006 amounts have been reclassified in these consolidated financial statements to conform to the 2007 presentation. Such reclassifications had no effect on net margin or members' equities as previously presented.

NOTE 2 – ELECTRIC PLANT

Electric plant in-service consisted of the following at December 31:

	2007	2006
	(in thousands)	
Production plant	$ 1,566,397	$ 1,558,660
Transmission plant	479,090	432,580
General plant	69,223	68,517
Completed construction, not classified and other	42,424	20,175
Electric plant in service	$ 2,157,134	$ 2,079,932

Depreciation expense was $40,563,000 and $39,384,000 for 2007 and 2006, respectively.

NOTE 3 – LONG-TERM ACCOUNTS RECEIVABLE

Long-term receivables include modifications to Spurlock Power Station in order to provide steam to a paper mill that recycles container board. The paper mill is reimbursing the Cooperative for the cost of the modifications through a monthly facilities charge over the 20-year life of the contract. Long-term receivables also include interest-bearing notes from joint ventures owned by the Cooperative and four of the Cooperative's member systems for the buyout of a propane company. The joint ventures of the member systems are making principal and interest (prime rate minus one-half of one percent, adjust annually) payments. The notes are payable in full in 2015.

NOTE 4 – INVESTMENT SECURITIES

Amortized cost and estimated fair value of investment securities available for sale at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2007				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	41,660	84	-	41,744
Zero Coupon Bond	3,320	386	-	3,706
Other	1,061	16	-	1,077
	$ 46,065	$ 486	$ -	$ 46,551
2006				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	39,698	28	-	39,726
Zero Coupon Bond	2,737	397	-	3,134
Other	1,061	11	-	1,072
	$ 43,520	$ 436	$ -	$ 43,956

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Proceeds from maturities and calls of securities were $10,000 and $19,611,000 in 2007 and 2006, respectively. There were no realized gains or losses on those calls.

Amortized cost and estimated fair value of investment securities held to maturity at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2007				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (103)	$ 7,552
6.5875% subordinated term certificate	440	103	-	543
0% subordinated term certificate	100	-	(21)	79
	$ 8,195	$ 103	$ (124)	$ 8,174
2006				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (459)	$ 7,196
6.5875% subordinated term certificate	455	87	-	542
0% subordinated term certificate	106	-	(26)	80
	$ 8,216	$ 87	$ (485)	$ 7,818

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Investment securities held to maturity with unrealized losses at December 31 not recognized in net margin are as follows (in thousands):

	Unrealized Loss Less than 12 months		Unrealized Loss 12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2007				
3-5% capital term certificates	$ -	$ -	$ 7,552	$ (103)
0% subordinated term certificate	-	-	79	(21)
	$ -	$ -	$ 7,631	$ (124)
2006				
3-5% capital term certificates	$ -	$ -	$ 7,196	$ (459)
0% subordinated term certificate	-	-	80	(26)
	$ -	$ -	$ 7,276	$ (485)

The maturity dates on the above securities range from 2019 to 2080 and have no available trading market. However, it is management's intent to hold these securities until maturity, at which time management expects to recover full value.

The amortized cost and fair value of securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Available for sale		
Due in one year or less	$ 42,034	$ 42,118
Due after one year through five years	2,970	3,356
Due after ten years	1,061	1,077
	$ 46,065	$ 46,551
Held to maturity		
Due after ten years	$ 8,195	$ 8,174

(Continued)

NOTE 5 – LONG-TERM DEBT

Long-term debt outstanding at December 31, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
First mortgage notes:		
4.199% - 10.657%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2040	$ 1,457,086	$ 1,108,580
2%, 5%, and 5.125% payable quarterly to RUS in varying amounts through 2024	44,311	49,507
3.8%, payable quarterly to CFC in varying amounts through 2024	19,059	20,440
Fixed rate loan, 7.7%, payable semiannually in varying amounts to National Cooperative Services Corporation through 2012	7,200	8,400
Promissory notes:		
5.70% - 6.33% variable rate note payable to CFC in 2010	390,000	405,000
Pollution control bonds:		
Series 1984B, variable rate bonds, due October 15, 2014, 3.49% at December 31, 2007 and 4.03% at December 31, 2006	74,950	82,100
Series 1984J, variable rate bonds, due October 15, 2011, 3.50% at December 31, 2007 and 3.55% at December 31, 2006	15,070	18,260
Solid waste disposal revenue bonds, Series 1993B, variable rate bonds, due August 15, 2023, interest rate 3.75% at December 31, 2007 and 3.68% at December 31, 2006	8,500	8,800
	2,016,176	1,701,087
Less current portion of long-term debt	61,137	57,782
	$ 1,955,039	$ 1,643,305

(Continued)

NOTE 5 – LONG-TERM DEBT (Continued)

In September 2002, RUS approved a loan application in the amount of $223,500,000 for the design, purchase, and installation of NOx reduction equipment and electrostatic precipitators, including plant modifications and related expenditures on Spurlock Power Station Units No. 1 and 2. Advances on these loans are subject to certain conditions outlined by RUS, and the non-governmental portions of such loans are subject to authorization from the PSC. At December 31, 2007, $15,200,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $433,863,000 for the construction of the Gilbert Unit at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. At December 31, 2007, $3,612,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $27,645,000 for the construction of five landfill gas to energy generating units including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2007, $14,453,000 of these amounts remained to be advanced.

In May 2005, RUS approved a loan application in the amount of $55,240,000 for the construction of two additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2007, $2,240,000 of these amounts remained to be advanced.

In May 2005, EKPC submitted to RUS a loan application in the amount of $906,973,000 for the construction of the Smith #1 Unit and the construction of five additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. In June 2007, EKPC re-submitted this same loan application for the Smith #1 Unit, along with the construction of only two combustion turbines and related transmission facilities for a revised loan amount of $943,932,000. This loan has not been approved by RUS.

In August 2005, RUS approved a loan application in the amount of $64,240,000 for the construction of various transmission projects. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2007, $39,240,000 of these amounts remained to be advanced.

(Continued)

NOTE 5 – LONG-TERM DEBT (Continued)

In September 2005, the Cooperative entered into an unsecured credit facility syndicate with the co-arrangers of CFC and the Bank of Tokyo-Mitsubishi. This loan was approved for a total of $650,000,000 for general operating expenses and capital construction projects. As of December 31, 2007, $260,000,000 of this amount remained to be advanced.

In March 2006, RUS approved a loan application in the amount of $481,388,000 for the construction of the Unit #4 at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2007, $231,388,000 of these amounts remained to be advanced.

In May 2007, EKPC submitted to RUS a loan application in the amount of $457,510,000 for the engineering and construction of a new scrubber on the Spurlock Unit #1 and the replacement of the existing scrubber on the Spurlock Unit #2. This loan has not been approved by RUS.

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5 percent per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act. As of December 31, 2007 and 2006, the Cooperative's cushion of credit account balance was $0 and $75,875,000, respectively.

The interest rate on the Series 1984B Pollution Control Bonds is subject to change weekly and the interest rate on the Series 1984J Pollution Control Bonds and the Series 1993B Solid Waste Disposal Revenue Bonds are subject to change semiannually. The interest rate adjustment period on any series of the above-mentioned variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis or to a fixed-rate basis, at the option of the Cooperative.

Long-term pollution control and solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds. Debt service reserve requirements are as follows: Series 1984B - $12,717,000; Series 1984J - $5,368,500; and Series 1993B - $1,062,000. In addition, mandatory sinking fund payments are required for each series as follows: Series 1984B – payments range from $7,950,000 in 2008 to $13,150,000 in 2013; Series 1984J – payments range from $3,535,000 in 2008 to $4,325,000 in 2010; and Series 1993B – payments range from $400,000 in 2008 to $700,000 in 2023. Debt service reserve and construction funds are held by trustees and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in investment securities available for sale and have a fair value of approximately $21,599,000 at December 31, 2007.

(Continued)

NOTE 5 – LONG-TERM DEBT (Continued)

Estimated maturities of long-term debt for the five years subsequent to December 31, 2007 are as follows: 2008 - $61,137,000; 2009 - $67,248,000; 2010 - $461,605,000; 2011 - $75,178,000; 2012 - $70,901,000; and thereafter - $1,280,107.

Under the terms of the loan agreements with RUS, CFC and institutional investors, the Cooperative is required to maintain certain levels of members' equities, interest coverage, and debt service coverage, all of which were met at December 31, 2007.

Substantially all assets are pledged as collateral for first mortgage notes payable to the United States of America (RUS and FFB) and CFC.

NOTE 6 – RETIREMENT BENEFITS

Pension Plan: Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association's Retirement and Security Program, a multi-employer defined benefit plan. The Cooperative's required contributions were approximately $8,968,000 and $7,883,000 for 2007 and 2006, respectively. The Cooperative expects to contribute approximately $6,809,000 to the plan in 2008.

Effective January 1, 2008, the Cooperative revised its defined benefit plan by reducing the benefit level from 2.0% with a cost of living adjustment to 1.8% without a cost of living adjustment. This revision will apply to all employees currently participating in the defined benefit plan. This action will apply to service beginning January 1, 2008.

Retirement Savings Plan: The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Cooperative makes matching contributions to the account of each participant up to 2 percent of the participant's compensation. The Cooperative contributed approximately $790,000 and $775,000 to the plan in 2007 and 2006, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative. The Cooperative expects to contribute approximately $722,000 to the plan in 2008.

Supplemental Death Benefit Plan: The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the consolidated financial statements.

(Continued)

NOTE 6 – RETIREMENT BENEFITS (Continued)

Postretirement Medical Benefits: The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50 percent of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan. The plan is not funded.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on its balance sheet, beginning with year end 2007, and to recognize changes in that funded status in the year in which the changes occur through comprehensive income beginning in calendar year 2008. Adoption of SFAS 158 had the following effect on the individual line items in the 2007 balance sheet (dollars in thousands):

	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Accrued postretirement benefit cost	$ 51,053	$ (12,136)	$ 38,917
Accumulated other comprehensive income	$ 486	$ 12,136	$ 12,622

Information about plan assets, obligations and contributions follows: The following table sets forth the plan's status reconciled with the amount shown in the Cooperative's balance sheets at December 31, 2007 and 2006 (dollars in thousands):

	2007	2006
Accrued benefit cost at beginning of period	$ 48,663	$ 46,604
Net periodic cost	3,028	2,547
Contributions credited	(638)	(488)
Accrued benefit cost at end of period	51,053	48,663
Accumulated other comprehensive income	(12,136)	-
Funded status	$ 38,917	$ 48,663

The discount rate used in determining the accumulated postretirement benefit obligation for 2007 and 2006 was 6.25% and 6.00%, respectively.

The Cooperative expects to contribute approximately $927,000 to the plan in 2008.

(Continued)

NOTE 6 – RETIREMENT BENEFITS (Continued)

The following expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

2008	$ 927
2009	1,038
2010	1,164
2011	1,297
2012	1,461
2013 - 2017	9,946
Total	$ 15,833

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2007. The rate is assumed to decline to 5 percent after five years.

The health care cost trend rate assumption has a significant effect on the amounts reported.

	2007	2006
Effect on total of service cost and interest cost components (dollars in thousands)		
1-percentage-point increase	$ 759	$ 697
1-percentage-point decrease	(587)	(540)
Effect on postretirement benefit obligation (dollars in thousands)		
1-percentage-point increase	$ 7,231	$ 6,776
1-percentage-point decrease	(5,771)	(5,381)

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES

The Cooperative has entered into long-term power purchase agreements having minimum payment obligations for the one year subsequent to December 31, 2007 as follows (dollars in thousands):

2008	$ 37,484

The Cooperative is committed to purchase coal for its generating plants under long-term contracts having minimum purchase obligations as follows (dollars in thousands):

2008	$ 134,108
2009	128,771
2010	96,993
2011	73,958
2012	59,461

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price re-openers.

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1,000,000 for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the consolidated financial statements.

During 2007, the Cooperative settled two lawsuits with the U.S. Environmental Protection Agency (EPA) resulting in the execution of two Consent Decrees discussed below.

On January 28, 2004, the EPA sued the Cooperative alleging that physical or operating changes to three coal-fired generators resulted in simultaneous violations of the Prevention of Significant Deterioration provision of the Clean Air Act; the New Source Performance Standards of the Clean Air Act; and the State Implementation Plan for Kentucky, as approved by EPA.

The parties executed a Consent Decree ("NSR Consent Decree"), which was lodged of record in U.S. District Court on July 5, 2007. The United States Department of Justice received public comments on the NSR Consent Decree for 30 days from July 5, 2007. The Federal Judge for the Eastern District of Kentucky entered the NSR Consent Decree on September 24, 2007.

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

Under the terms of the NSR Consent Decree, the Cooperative paid $750,000 in civil penalties to the EPA, agreed to install certain emissions monitoring equipment and controls, and agreed to report emissions. In the event the Cooperative does not comply with the provisions of the NSR Consent Decree, the EPA may assess certain penalties. The Cooperative has complied with the NSR Consent Decree; no additional accruals are required relating to this matter.

On January 17, 2006, the Cooperative received a Notice of Violation (NOV) from the EPA alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units 1 and 2. At issue was EPA's allegation that the Cooperative incorrectly reported the turbine, rather than the generator, nameplate ratings, thus placing the Units under the Acid Rain Program. On February 10, 2006, the Cooperative received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's covered the years 2000 through 2004.

The parties executed a Consent Decree ("Acid Rain Consent Decree") which the United States Department of Justice lodged on September 20, 2007, and subsequently entered after the 30-day public comment period on November 30, 2007.

Under the terms of the Acid Rain Consent Decree, the Cooperative must make six annual payments of $1,900,000 ("Fixed Penalty Payment"), totaling $11,400,000. The Cooperative made the first installment of this fixed penalty payment in December 2007. In addition to the Fixed Penalty Payment, the Cooperative is subject to a Contingent Penalty Payment for a period of five years, based on audited financial statements for the years 2008 through 2012. The Cooperative will be subject to the Contingent Penalty Payment if certain financial ratios are achieved. The Cooperative has reserved $11,700,000 for such contingent penalty payments. In December 2007, based on the terms of the Acid Rain Consent Decree, the Cooperative surrendered 4,107 NOx allowances and 15,311 SO2 allowances. Liabilities and margin impacts relating to complying with this Acid Rain Consent Decree are included in the consolidated financial statements.

The Cooperative has certain generating plants that contain asbestos, which is required by law to be removed or contained if the plants are renovated or demolished. The Cooperative has no plans to retire any of its generating plants at this time. Because there is an indeterminate settlement date for the asset retirement obligation, the range of time over which the Cooperative may settle the obligation is unknown. Therefore, a fair value determination of an asset retirement obligation cannot be reasonably estimated.

In September 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at Spurlock Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $556 million.

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

In November 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at the J.K. Smith Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $664 million.

In December 2004, the Board approved the construction of five gas-fired combustion turbines to be located at the Cooperative's J.K. Smith Power Station. Construction of three of the combustion turbines has been deferred until after 2009. The first two combustion turbines are expected to cost approximately $155 million and are scheduled to become operational in 2009.

In September 2005, the Board approved construction of a new limestone scrubber with a wet precipitator for Spurlock Unit 2 at a cost of approximately $207 million.

In January 2006, the Board approved the construction of a new limestone scrubber with a wet precipitator for Spurlock Unit 1 at a cost of approximately $173 million.

The construction projects mentioned above are subject to PSC approval.

In December 2006, Warren Rural Electric Cooperative Corporation ("Warren") decided not to become a member of the Cooperative. In the summer of 2007, the Cooperative reached a settlement with Warren. This settlement resulted in a $3.2 million write-off that is included in the consolidated financial statements.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Accounts Receivable and Accounts Payable: The fair values of accounts receivable and payable are based on carrying value due to the short-term nature of the instruments.

Investment Securities: The fair values of investment securities are estimated based on quoted market prices for the same or similar investments.

Long-Term Accounts Receivable: The fair values of long-term accounts receivable are estimated based on quoted interest rates for similar maturities.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Notes Payable: The carrying amount approximates fair value because of the variable rate and payable on demand terms of the financial instrument.

Long-Term Debt: The fair value of the Cooperative's long-term debt that is practicable to estimate, is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Cooperative for debt of the same remaining maturities, including the appropriate redemption premium, if any.

The estimated fair values of the Cooperative's financial instruments are as follows (in thousands):

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 16,660	$ 16,660	$ 69,202	$ 69,202
Accounts receivable	68,309	68,309	62,091	62,091
Investment securities				
Available for sale	46,551	46,551	43,956	43,956
Held to maturity	8,195	8,174	8,216	7,818
Long-term accounts receivable (including current portion)	6,847	9,411	8,572	9,266
Financial liabilities				
Long-term debt	$2,016,176	$2,089,445	$1,701,087	$1,713,203
Accounts payable	106,153	106,153	90,977	90,977

EAST KENTUCKY POWER COOPERATIVE

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Winchester, KY 40392-0707
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www.ekpc.coop

East Kentucky Power Cooperative, Inc.

2006 Annual Report

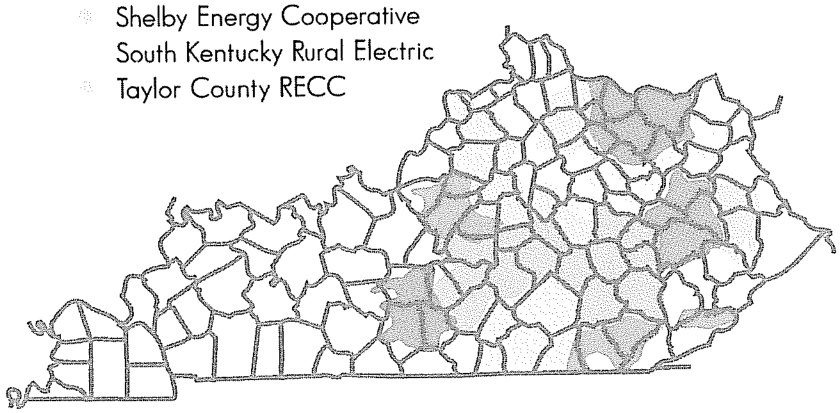
2006 ANNUAL REPORT

EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy Cooperative

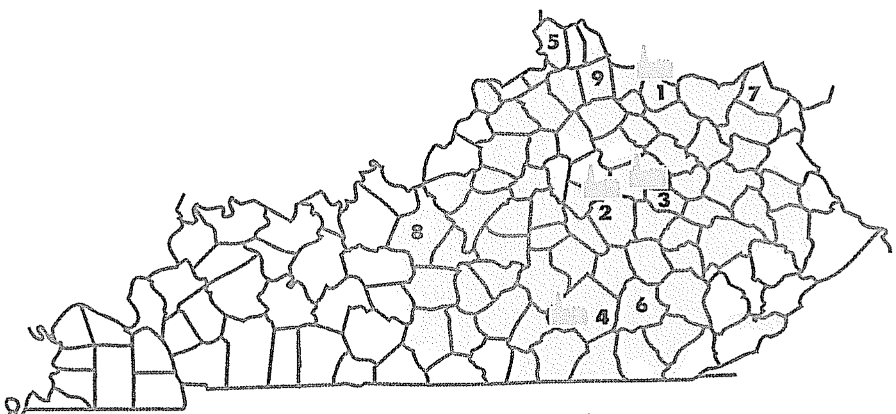
The 16 distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	1,118 net MW
2	Dale	196 net MW
3	Smith Combustion Turbine Units	Summer 626 net MW Winter 842 net MW
4	Cooper	341 net MW
Landfill Gas Plants		
5	Bavarian	3.2 net MW
6	Laurel Ridge	4.0 net MW
7	Green Valley	2.4 net MW
8	Pearl Hollow	2.4 net MW
9	Pendleton	3.2 net MW
Southeastern Power Adm. (SEPA), hydro power		170 MW



shows system wide service area

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EAST KENTUCKY POWER COOPERATIVE

Financial Highlights (Dollars in Thousands)

	2006	2005	% Increase (Decrease)
Operating Revenue	**$650,960**	$631,297	3.1
Operating Expenses	**$573,750**	$588,346	(2.5)
Net Margin (Deficit)	**$11,174**	($46,007)	124.3
Fuel Expenses for Generation	**$278,210**	$263,434	5.6
Purchased Power Cost	**$76,781**	$109,571	(29.9)
Interest Cost	**$84,834**	$69,844	21.5
Members' Equities	**$107,033**	$96,108	11.4
Construction Expenditures	**$290,463**	$162,607	78.6
Assets	**$2,030,092**	$1,687,894	20.3
Sales to Member Cooperatives (MWh)	**$12,129,402**	$12,365,466	(1.9)
System Peak Demand (MW)			
Winter Season	**2,859** *	2,642	8.2
Summer Season	**2,339**	2,227	5.0
Number of Member System Consumers	**504,492**	496,906	1.5

* set February 16, 2007

Five-Year Statistical Summary

	2006	2005	2004	2003	2002
Net Margins (Deficit) - $1,000	**$11,174**	($46,007)	($27,267)	$29,398	$37,428
TIER	**1.13**	0.34	.49	1.66	1.95
DSC	**0.98**	0.66	0.72	1.35	1.73
Fuel Expense - $1,000	**$278,210**	$263,434	$173,506	$137,103	$146,506
Construction Expenditures -$1,000					
Generation	**$222,722**	$131,756	$166,351	$221,949	$155,713
Transmission	**$62,638**	$26,987	$35,818	$27,101	$25,149
General	**$5,103**	$3,864	$2,846	$12,762	$9,649
Investment In Facilities - $1,000					
Original Cost	**$2,482,319**	$2,192,259	$2,025,314	$1,810,211	$1,558,890
Long-Term Debt - $1,000	**$1,643,305**	$1,339,263	$1,223,164	$952,987	$762,079
Total Assets - $1,000	**$2,030,092**	$1,687,894	$1,558,561	$1,328,532	$1,026,947
Number of Employees - Full-Time	**620**	635	629	599	600
Cost of Coal Purchased					
$/ton	**$55.82**	$49.95	$43.24	$34.13	$32.35
$/MBtu	**$2.35**	$2.09	$1.78	$1.39	$1.33
Amount of Coal Purchased - tons	**4,788,437**	4,559,035	3,859,339	3,615,196	3,815,851
Generation - MWh	**11,197,632**	11,105,626	9,046,449	9,061,760	9,873,289
System Peak Demand - MW					
Winter Season	**2,859**	2,642	2,711	2,589	2,568
Summer Season	**2,339**	2,227	2,041	1,996	2,120
Sales to Other Utilities - MWh	**77,010**	144,197	53,466	71,224	513,874
Member Load Growth - %					
Energy	**(1.9)**	4.7	3.2	0.7	6.9
Demand	**1.3**	6.2	4.0	(0.6)	6.2
Load Factor - %	**50**	52	51	51	58
Miles of Line	**2,673**	2,663	2,638	2,629	2,607
Installed Capacity - kVA	**9,010,066**	8,919,666	8,863,666	8,824,466	8,722,747
Distribution Substations	**321**	311	304	299	292

2006: A Parting Glance

Following two financially difficult years, in 2006 East Kentucky Power Cooperative began taking important steps to streamline operations and strengthen the organization's financial condition.

Throughout the year, EKPC implemented a cost containment initiative that reduced costs by more than $17 million by blending fuels, changing unit maintenance schedules and taking other cost-cutting steps.

Year-end results showed a net margin of $11.2 million. The margins were adversely impacted due to unseasonably mild winter and summer weather, but a number of cost-saving efforts proved critical in obtaining positive year-end results. We are continuing the initiative in 2007 to further reduce costs and streamline operations.

One of the immediate challenges being faced is EKPC's growth in power demand, which continues to increase at twice the average national rate.

To meet future demand, construction began June 2006 on Spurlock Unit #4, a circulating fluidized bed plant that will be one of the nation's cleanest coal generating units. Smith Unit #1, a nearly identical 278-megawatt coal-fired unit, is planned for J.K. Smith Station in Clark County, Ky., in 2011.

EKPC's power supply plans changed at the end of 2006 when Warren RECC announced that it would not be joining EKPC in 2008 as previously planned.

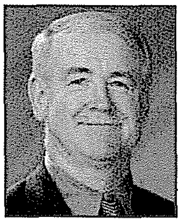
Due to continued strong growth of the system, EKPC's analysis showed that both Spurlock Unit #4 and Smith Unit #1 were still needed in Spring 2009 and Summer 2011, respectively.

Although baseload plans remain unchanged, EKPC's plans for combustion turbine peaking units did change. EKPC will now need two combustion turbines by Summer 2009.

Our renewable energy program continued to thrive, with our fourth landfill gas-to-electric plant in Hardin County making its debut in February 2006, and a fifth plant beginning commercial operation in Pendleton County in February 2007.

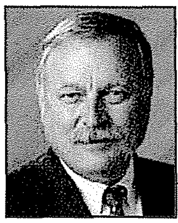
Work also began in 2006 on two major 345-kilovolt (kV) transmission projects that will improve reliability in Central Kentucky. Preliminary project work got underway on the Smith to West Garrard line, a 36-mile 345 kV line, and construction of the 18-mile Smith to North Clark line began in late 2006.

Despite the flurry of challenges, we are moving forward with renewed confidence, and we will focus efforts upon continued steps to strengthen the financial future of our organization. EKPC's primary commitment – to provide both quality service and the most affordable power possible to our member systems -- remains strong.



Robert M. Marshall

Bob Marshall
President and CEO

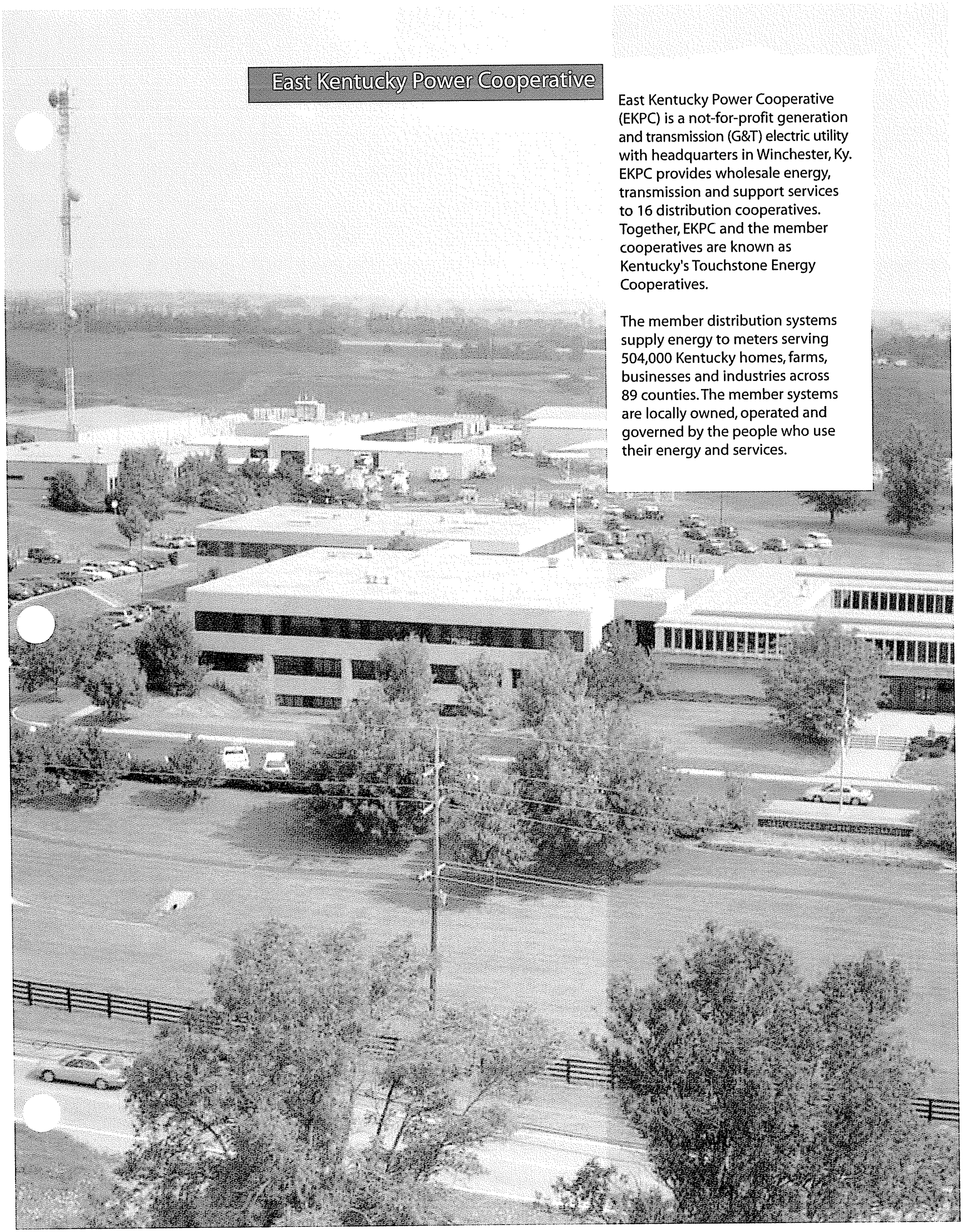


Wayne Stratton
Chairman of the Board

East Kentucky Power Cooperative

East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving 504,000 Kentucky homes, farms, businesses and industries across 89 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.



From Coal to Kilowatts: How Electricity is Made

It takes an around-the-clock effort to make sure we have all the power we need at any time of the day or night. EKPC's coal-fired power plants operate 24 hours a day, generating thousands of megawatts of electricity that are delivered to you at the speed of light – 186,000 miles per second.

So, how do we do it?

Coal

It all starts with coal, which is delivered to our stations by truck, barge or railroad.

The first step in turning coal into kilowatts is to grind the coal into a fine powder using equipment known as a "pulverizer." This powder (allowing the coal to burn faster, hotter and more completely) is then blown into a furnace area inside the boiler, where it burns much like a gas.

YEAR IN REVIEW

Marshall Named CEO

In December, EKPC's Board of Directors named Owen Electric President and CEO Bob Marshall as EKPC's president and chief executive officer effective January 1, 2007.

Warren RECC Decides Not To Join EKPC

Warren Rural Electric Cooperative's (WRECC) board of directors decided in December to withdraw its previous notice to leave the Tennessee Valley Authority (TVA).

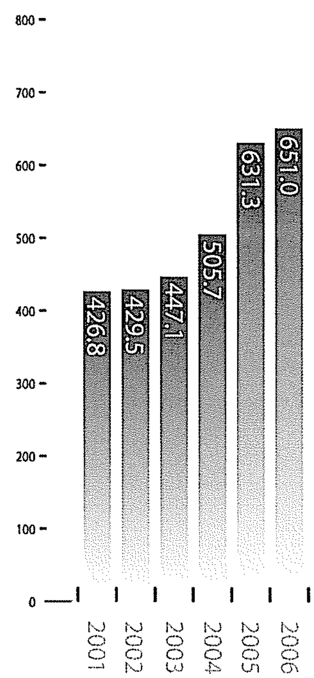
In 2004, WRECC had made the decision to pursue a power supply arrangement with EKPC in order to obtain economical wholesale power and an ownership stake in its power supplier. Though both cooperatives worked diligently to develop the partnership, WRECC's leaders ultimately determined it was in the best interest of their members not to join EKPC.

Spurlock Unit #4 Construction Begins

Immediately upon receiving the final air permit from the Kentucky Division of Air Quality, construction began on Spurlock Unit #4, EKPC's second clean coal unit, in mid-June 2006. At peak construction in the summer and fall of 2007, there will be about 700 construction workers on site building the unit. The project is scheduled for completion by Spring 2009. The 278-megawatt unit will rank among the cleanest coal generating units in the nation.

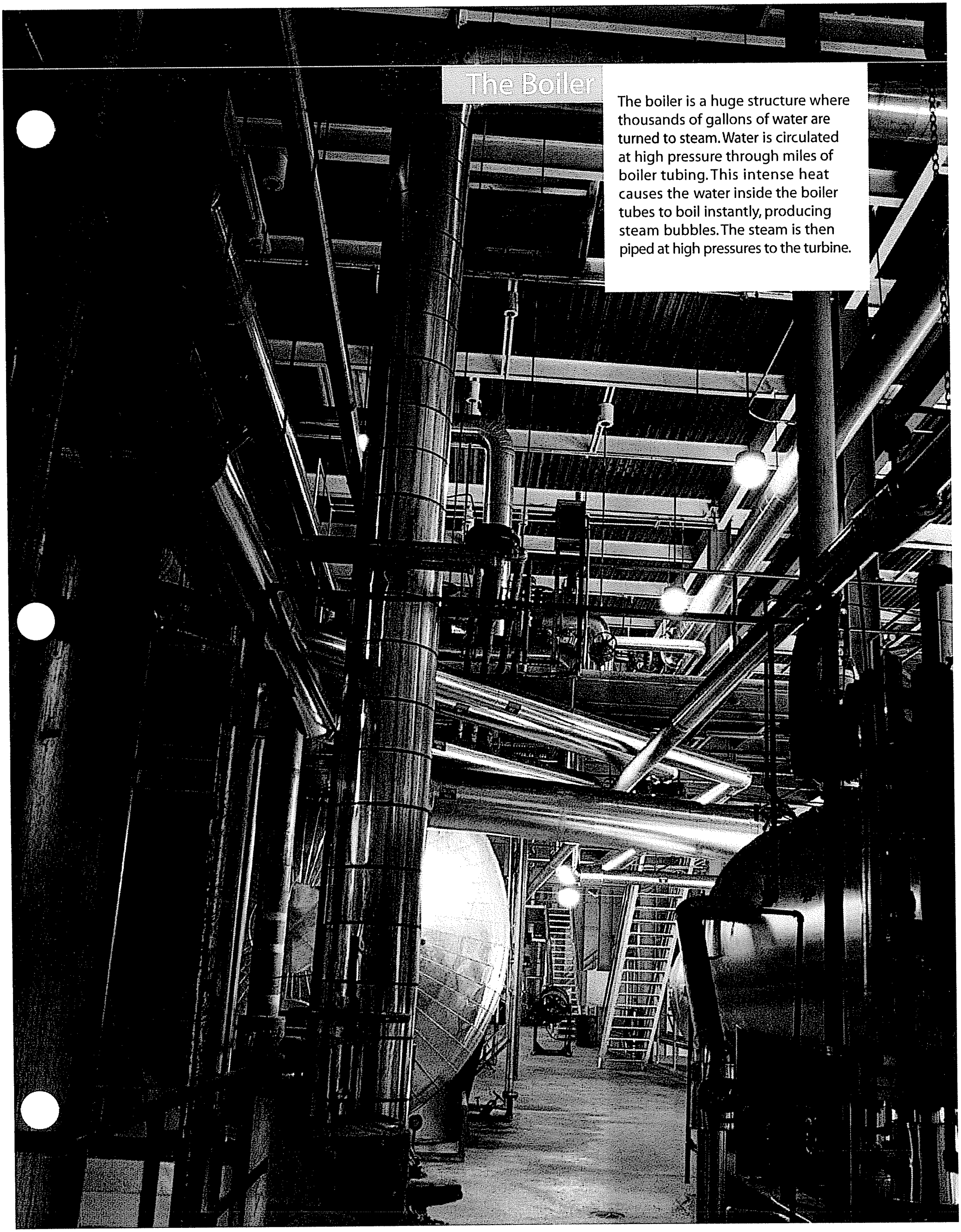
Operating Revenue

in $Millions



The Boiler

The boiler is a huge structure where thousands of gallons of water are turned to steam. Water is circulated at high pressure through miles of boiler tubing. This intense heat causes the water inside the boiler tubes to boil instantly, producing steam bubbles. The steam is then piped at high pressures to the turbine.



Construction Begins on Spurlock Scrubbers

In August 2006, the Kentucky Public Service Commission (PSC) approved construction of a scrubber for Spurlock Unit #1. The $145 million scrubber is required to comply with Environmental Protection Agency (EPA) requirements to reduce emissions of sulfur dioxide by 2010. Construction of the Unit #1 scrubber began in late 2006, and the project is expected to be completed by January 2009. Construction of Spurlock's Unit #2 scrubber began in August, with an anticipated completion by October 2008.

Unit Generation Figures

In 2006, EKPC posted generation of 11.2 million net megawatt hours (MWh). Dale Station generated 1.0 million net MWh. Cooper Station generated 2.0 million net MWh, while Spurlock Station produced more than 7.9 million net MWh and Smith Station generated 200,000 net MWh. EKPC's four landfill gas plants combined for a total generation of 88,000 net MWh in 2006.

Transmission Siting Workshop Held

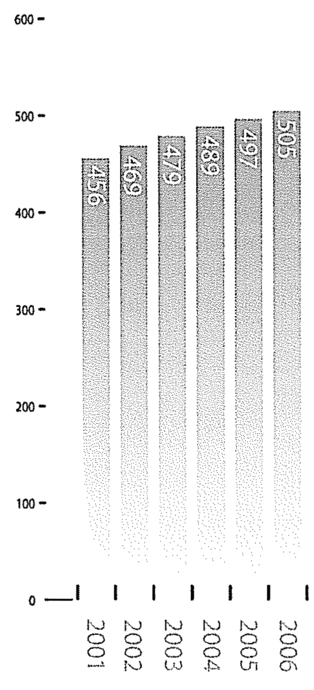
Nearly 60 people, including participants and observers from utilities, environmental groups, and government agencies in Kentucky, attended a workshop in March to develop a model for developing transmission routes. The workshop was co-hosted by EKPC and E.ON U.S., and was led by the same team of experts that first developed the methodology in Georgia.

Copper Thefts Rise

Throughout 2006, Kentucky co-ops reported a rash of copper wire thefts, resulting in thousands of dollars in damage, and in a few tragic instances, death. The primary incentive for the rash of thefts was copper's worth in the scrap metal markets. In August, a fatality occurred at the New Castle, Ky., substation when a man attempted to steal copper groundings from the site.

Member Consumer Meters

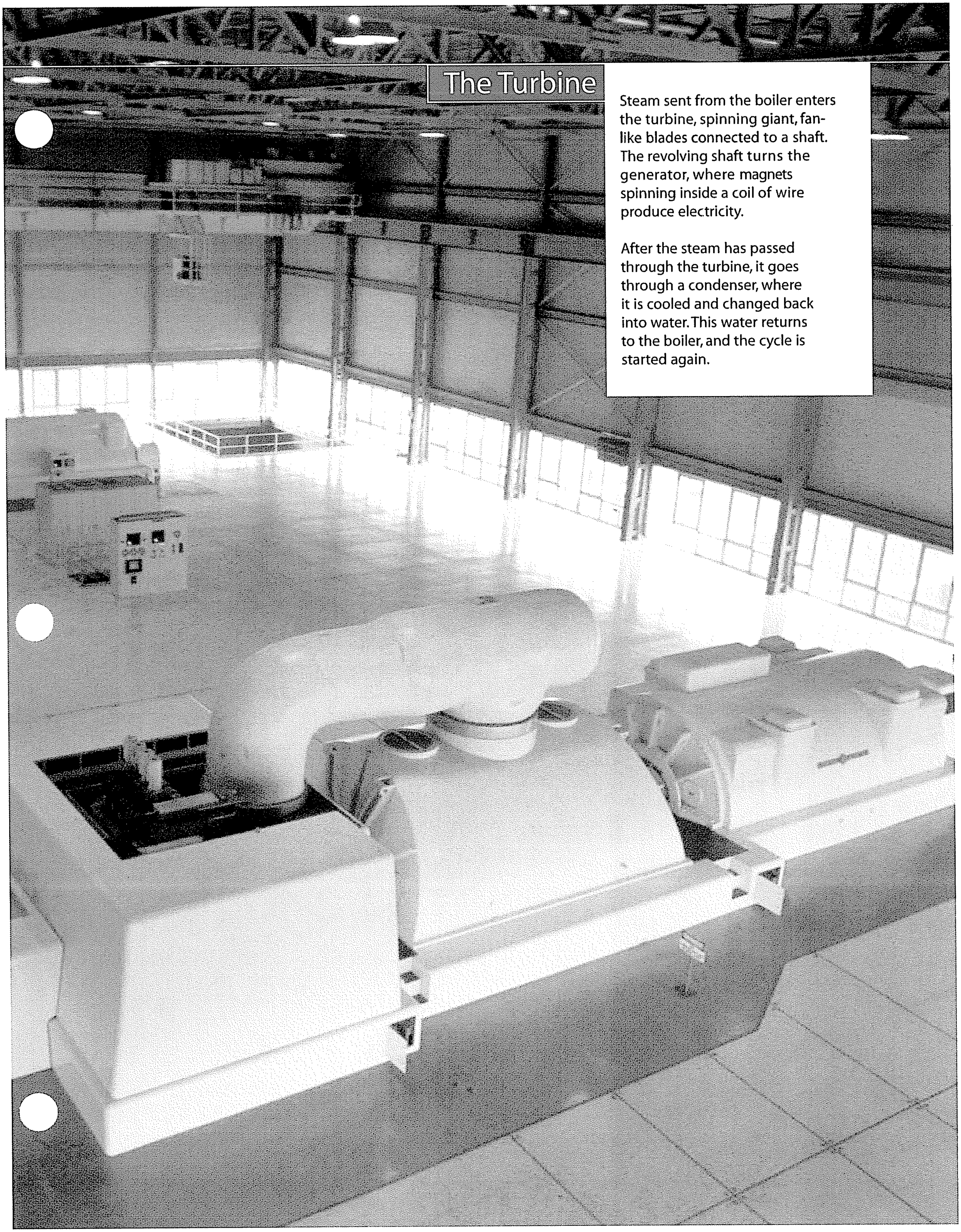
Year-End in Thousands



The Turbine

Steam sent from the boiler enters the turbine, spinning giant, fan-like blades connected to a shaft. The revolving shaft turns the generator, where magnets spinning inside a coil of wire produce electricity.

After the steam has passed through the turbine, it goes through a condenser, where it is cooled and changed back into water. This water returns to the boiler, and the cycle is started again.



Work Progresses On Smith Station 345-kV Lines

EKPC made progress in 2006 on two major 345-kilovolt (kV) transmission projects that will improve reliability in Central Kentucky and provide outlets for additional generating units at Smith Station. Construction began on a link from Smith Station's north side to an interconnection with an existing 345 kV line in northern Clark County. In addition, EKPC began siting work by conducting public open houses that provided input into the routing of a 36-mile line from the Smith Station site to an existing 345-kV line in Garrard County.

System Transmission Construction Continues

During 2006, EKPC built 10 miles of new transmission lines. Throughout the year, crews also completed 8.36 miles of line re-conductoring.

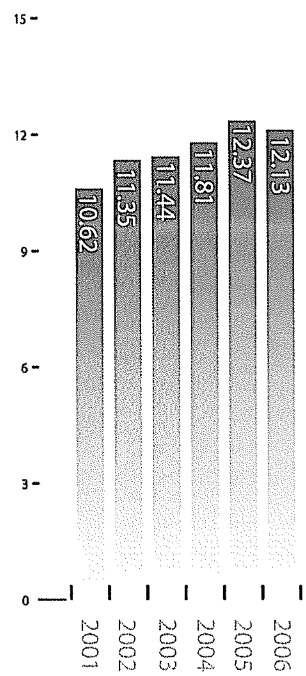
Hardin Co. Plant Begins Operation

Another landfill gas-to-electric project, located at the Pearl Hollow site in Hardin County, Ky., began commercial operation in February 2006. The new plant, which produces electric power from three generating units fueled by methane from the landfill, generates 2.4 megawatts of electricity, or enough to supply about 1,440 homes. The Pearl Hollow facility joins EKPC's three other landfill gas-to-electric plants in Greenup, Laurel and Boone counties.

Early in 2007, construction was completed on a fifth landfill gas-to-electric renewable facility in Pendleton County, near Butler, Ky. The plant, which produces a total of 3.2 MW of renewable power (enough to supply more than 2,300 Kentucky homes), began commercial operation in February 2007.

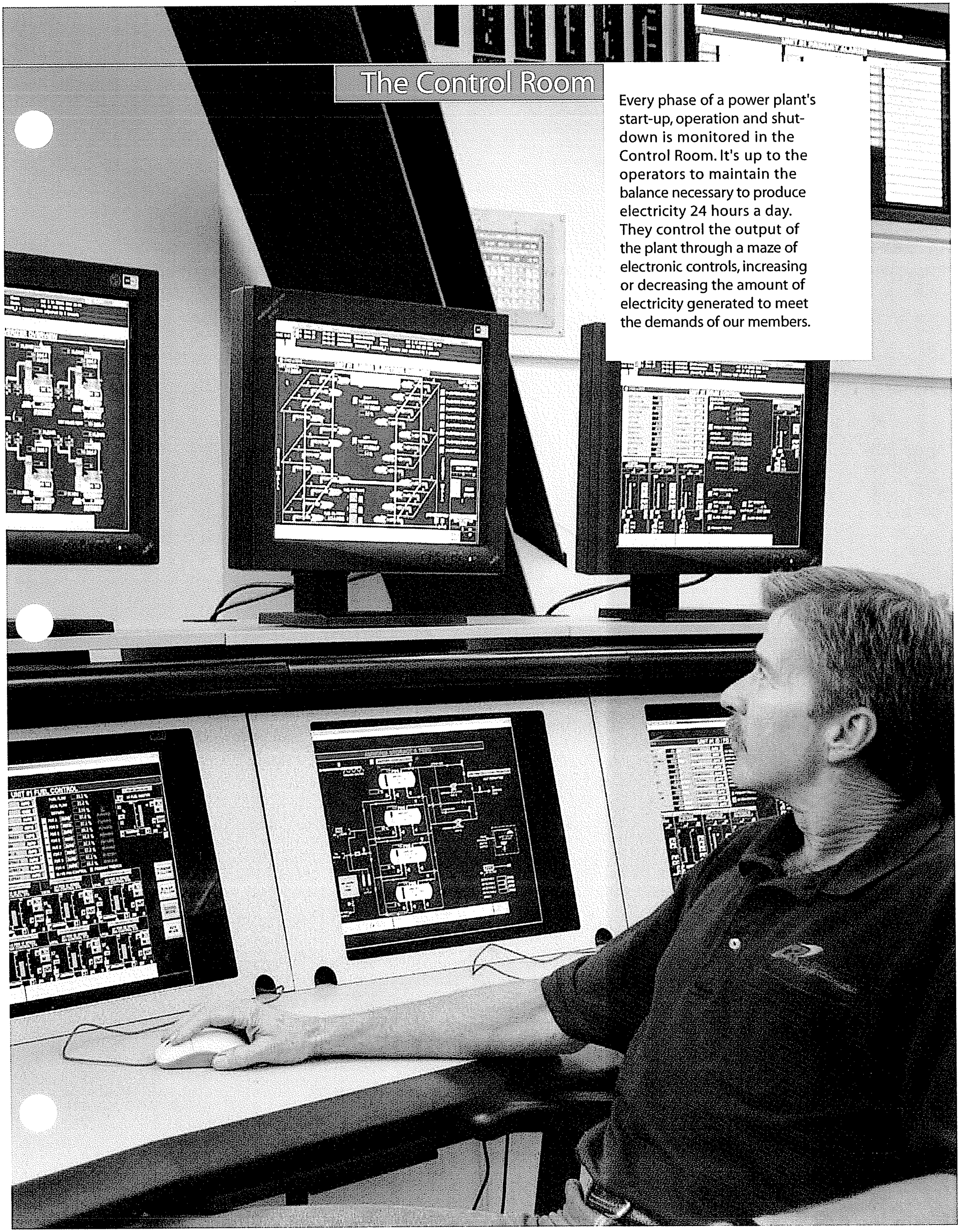
Energy Sales to Members

MWh in Millions



The Control Room

Every phase of a power plant's start-up, operation and shut-down is monitored in the Control Room. It's up to the operators to maintain the balance necessary to produce electricity 24 hours a day. They control the output of the plant through a maze of electronic controls, increasing or decreasing the amount of electricity generated to meet the demands of our members.



Co-op Connections Card Program Continues to Grow

In 2006, a total of 637 co-ops in 48 states participated in Touchstone Energy's Co-op Connections Card program. The program was designed for retail consumer-members to obtain national and local discounts through participating Touchstone Energy cooperatives across the country. EKPC member systems were the first in the nation to launch the program.

Touchstone Energy Expands to 45th State

With the addition of Eastern Maine Electric Cooperative, Touchstone Energy expanded into its 45th state in 2006, and increased its membership to 650 cooperatives.

EKPC Hosts Lineman's Rodeo

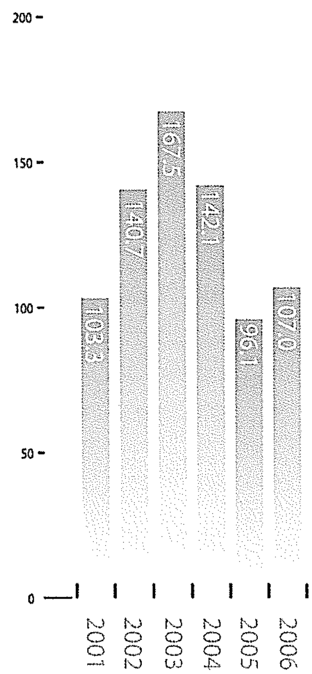
At the 2nd Annual Kentucky Lineman's Rodeo, hosted by EKPC in August, Fleming-Mason Energy in Flemingsburg, Ky., took top honors for the "Overall Team" award. Cross-arm changeout, pole-climb and hurt-man rescue contests rounded out the event's categories.

Governor Signs Affiliated Services Bill

In April 2006, Kentucky Gov. Ernie Fletcher signed House Bill 568 into law. The legislation clarifies the right of Kentucky's electric cooperatives to offer affiliated services such as propane and home security. The bill received overwhelming support in both the Kentucky House and Senate.

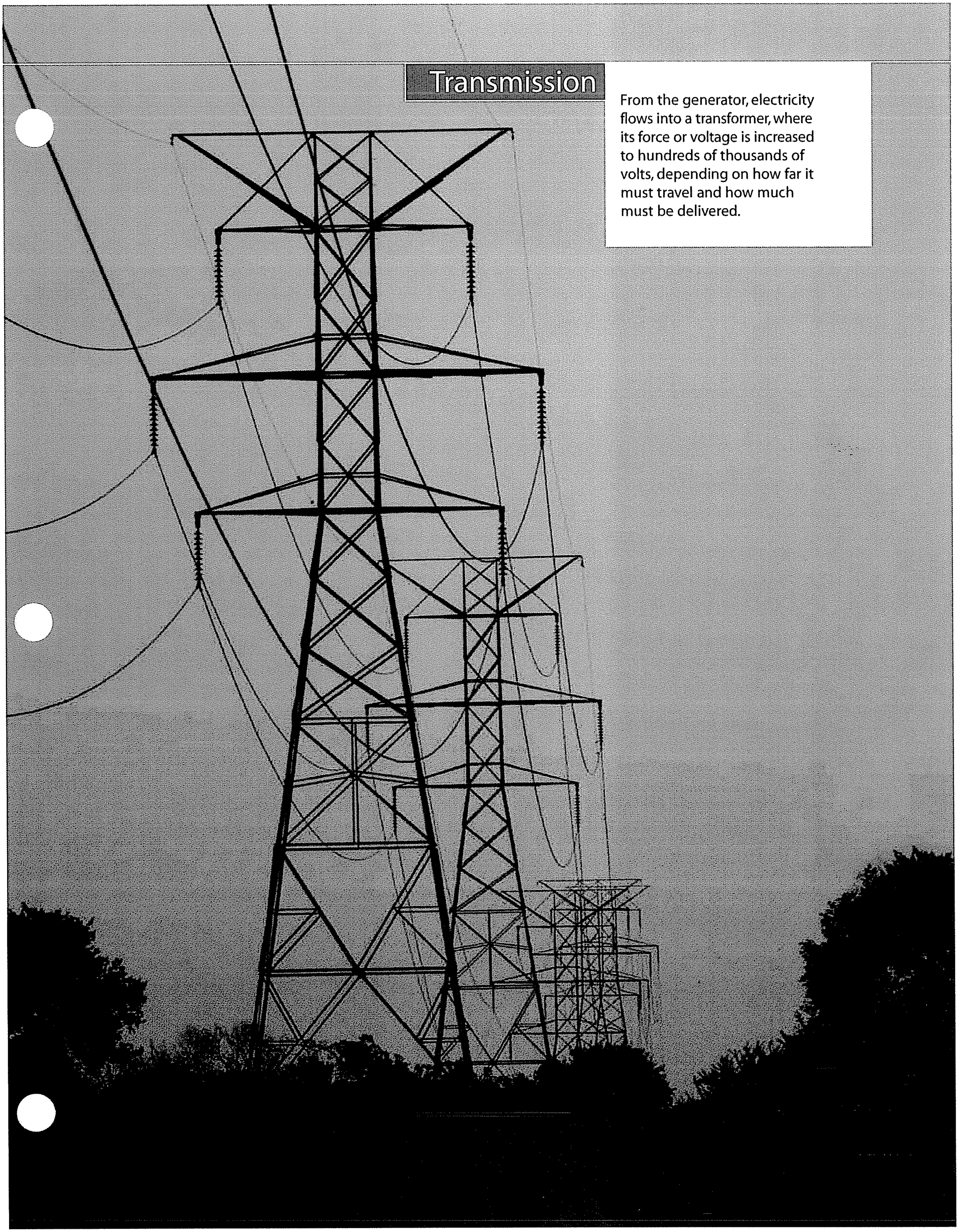
Members' Equities

Year-End in $Millions



Transmission

From the generator, electricity flows into a transformer, where its force or voltage is increased to hundreds of thousands of volts, depending on how far it must travel and how much must be delivered.



Board Votes to Seek Rate Increase

In December 2006, EKPC's Board approved the filing of a request to the Kentucky Public Service Commission (PSC) for a rate increase this year, noting that the membership would best be served by avoiding a rate hike impacting retail members during the highest billing months of the year. The request seeks a 6 to 7 percent wholesale rate increase.

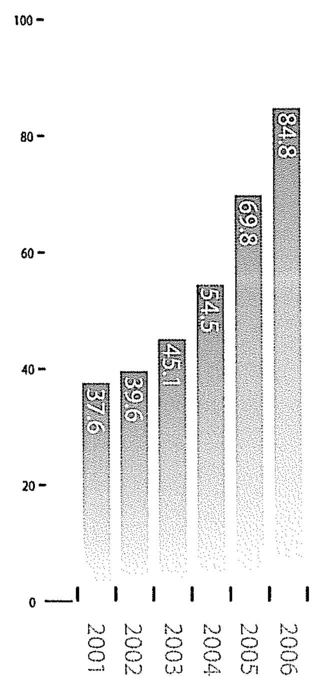
The EKPC request seeks additional revenue to continue providing reliable power and quality service to members, and to meet financial obligations. If approved, this would be the organization's first base rate increase since 1983.

Co-op Receives Special Recognition

In June, EKPC was recognized as Kentucky Employer of the Year by the Veterans of Foreign Wars Department of Kentucky. EKPC's nomination was in the large employer category for 2006. This award was established to recognize employers (featuring more than 250 employees) with records of outstanding achievement in the hiring, promotion and training of veterans. The award followed on the heels of the "Best Places To Work In Kentucky" competition sponsored by the Kentucky Chamber of Commerce, in which EKPC ranked among the top places to work in the state.

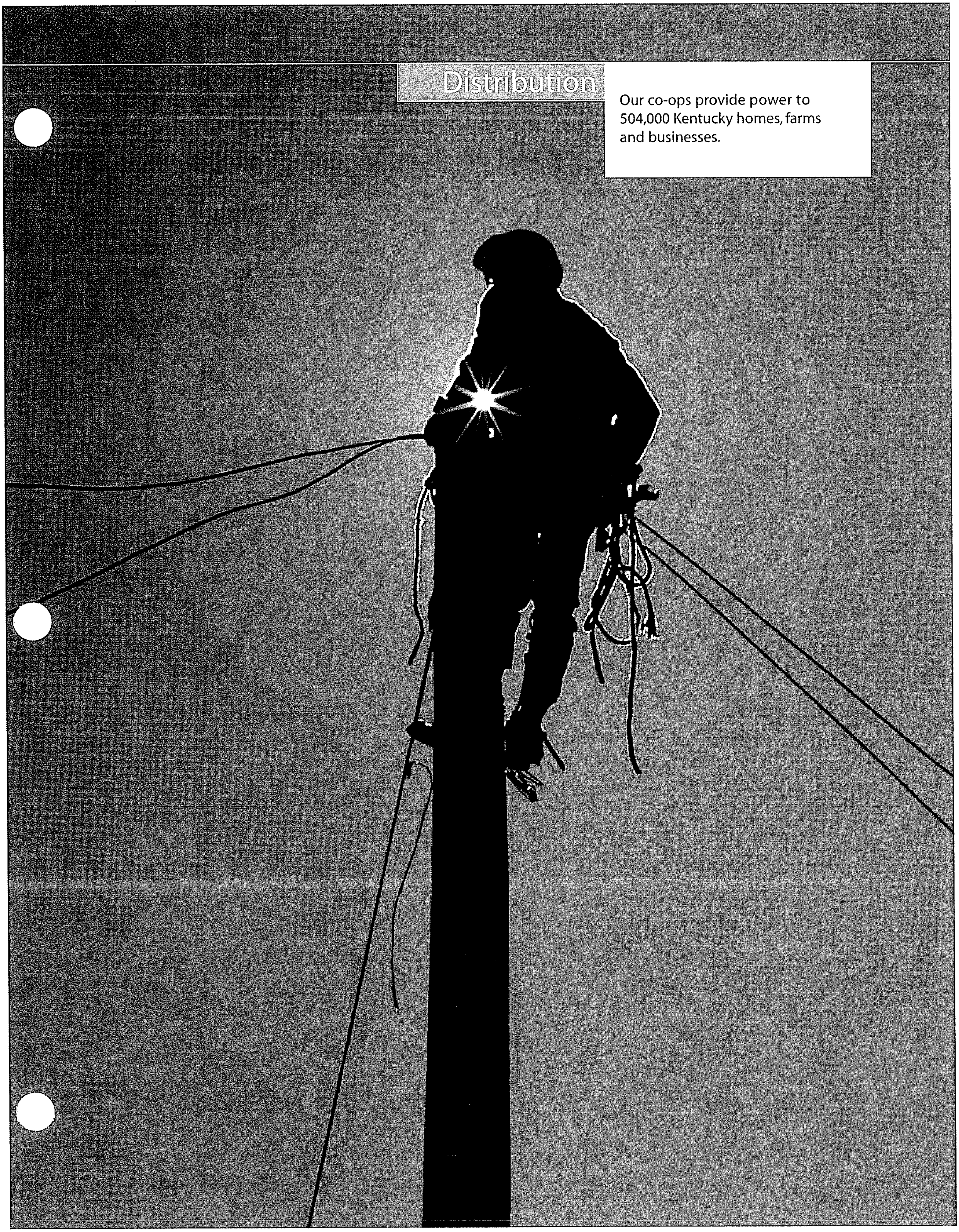
Interest Cost

in $Millions



Distribution

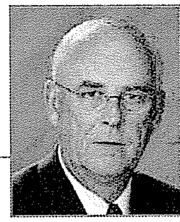
Our co-ops provide power to 504,000 Kentucky homes, farms and businesses.



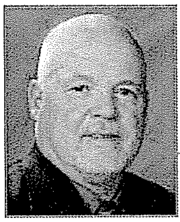
EXECUTIVE STAFF

Coordinates strategic initiatives with day-to-day operations to further the goals of the company.

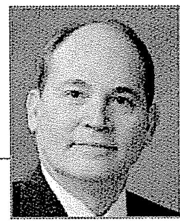
Gary Crawford
Member Services



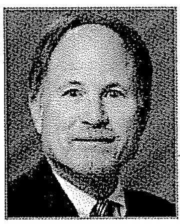
Doug Oliver
Human Resources
and Support Services



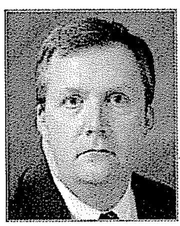
Dave Eames
Finance



John Twitchell
G&T Operations



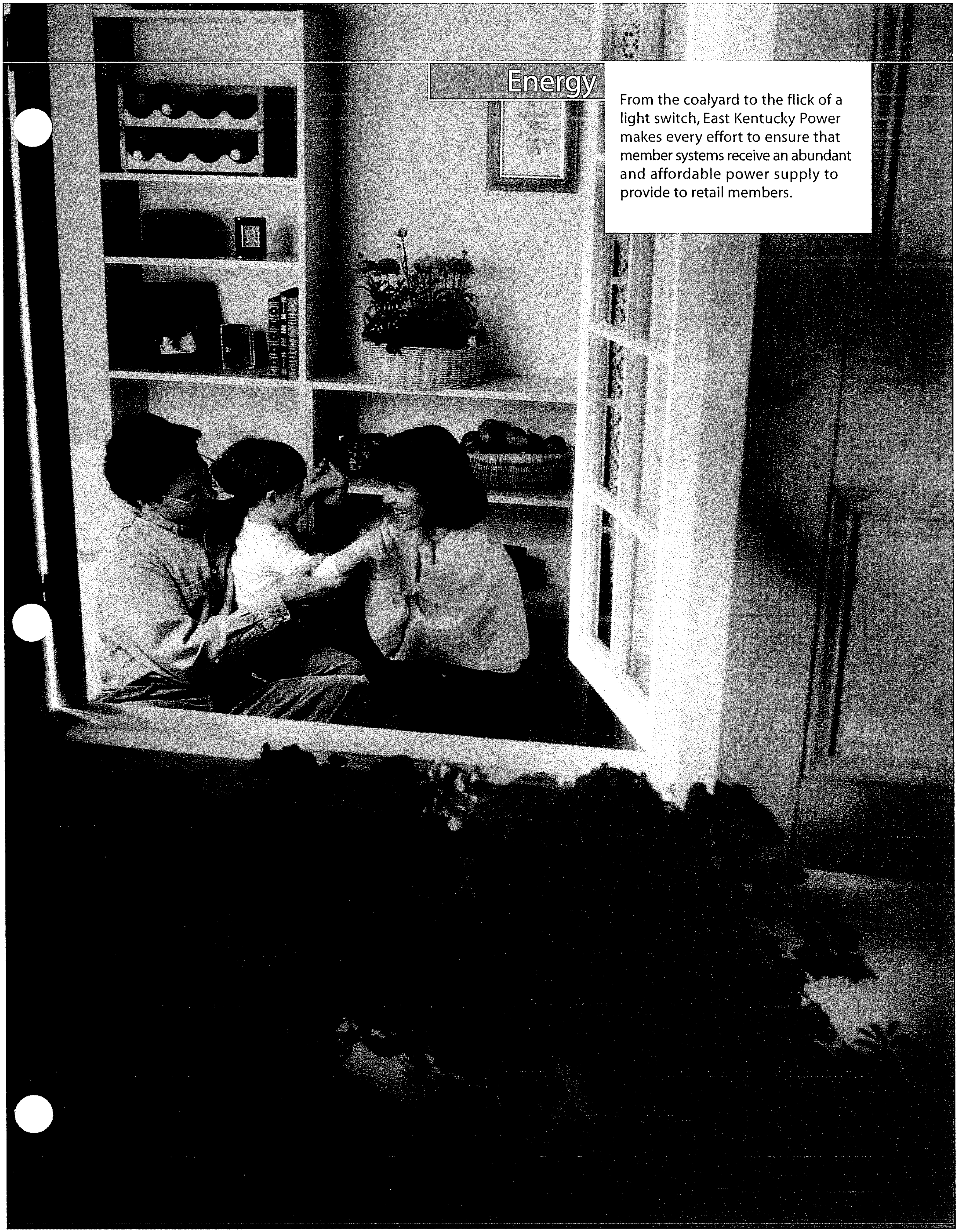
David Smart
Legal



Jim Lamb
Power Supply

Energy

From the coalyard to the flick of a light switch, East Kentucky Power makes every effort to ensure that member systems receive an abundant and affordable power supply to provide to retail members.



Financial Highlights

Results of Operations

Operating revenues for the twelve months ended December 31, 2006, increased approximately $19.7 million compared to the same period in 2005. This increase results primarily from the implementation of an environmental cost recovery surcharge. In early 2005, EKPC received approval from the Kentucky Public Service Commission (KPSC) to recover certain costs incurred in complying with the Federal Clean Air Act. This surcharge was effective for service rendered on or after July 1, 2005, and resulted in increased revenue from $27.2 million in 2005 to $56.2 million in 2006, an increase of $29.0 million. Under Kentucky's Fuel Adjustment Clause (FAC), fuel cost above or below a stated amount per MWh is charged or credited to the member cooperatives for all energy sales. Due to the mild weather in 2006, EKPC's FAC recovery decreased from $90.7 million in 2005 to $81.1 million in 2006, a decrease of $9.6 million. Megawatt-hour (MWh) sales to members decreased 1.9 percent, also a result of unusually mild weather in 2006.

In June 2006, the Environmental Protection Agency (EPA) sued EKPC charging operation of Dale Station Units #1 and #2 with technical violations of the Clean Air Act acid rain program, and provisions of the NOx State Implementation Plan. The issue involves whether these units were subject to regulations as generators having a "nameplate" capacity greater than 25 megawatts and were used to generate more than 25 megawatts of electricity. EKPC filed its answer to the complaint in August 2006. Discovery was scheduled to be completed in May 2007. The Court has assigned the action for trial by jury in September 2007. The Kentucky Environmental and Public Protection Cabinet has joined as a party.

Production Operating Expense, which includes fuel, other production and purchased power, are categories that should be considered together for comparative purposes. On an hour-to-hour basis, EKPC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economic source. EKPC's coal costs have increased as a result of increased demand for low-sulfur coal and decreased supply of such coal. In the twelve months ended December 31, 2006, compared to the same period in 2005, fuel costs increased $14.8 million. For the twelve-month period ended December 31, 2006, EKPC incurred $76.8 million in purchased power expense. Depreciation expense decreased $12.7 million in 2006. This decrease is due to the PSC environmental surcharge order requiring EKPC to conduct a depreciation study by an outside firm. As a result, useful lives of production plants were extended, and rates on transmission and distribution plants were changed.

Generation of Power

East Kentucky has coal-fired generating facilities at Dale Station in Clark County, Cooper Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units is supplemented during peak times by combustion turbines at Smith Station in Clark County. East Kentucky's generating facilities produced 11.2 million megawatt-hours in 2006, compared with 11.1 in 2005.

East Kentucky's power stations burned 4.71 million tons of coal in 2006, compared with 4.51 tons in 2005. The cost of coal burned during 2006, including handling, was $2.362 per million Btu, or $55.60 per ton. The cost of coal purchased during 2006 was $2.353 per million Btu, or $55.82 per ton.

The combustion turbines at Smith Station consumed 33,486 gallons of oil with a cost of $1.02 per gallon, or $7.33 per million Btu. The combustion turbines also consumed 2,675,125 MCF of natural gas with a cost of $8.75 per MCF.

Interest Costs

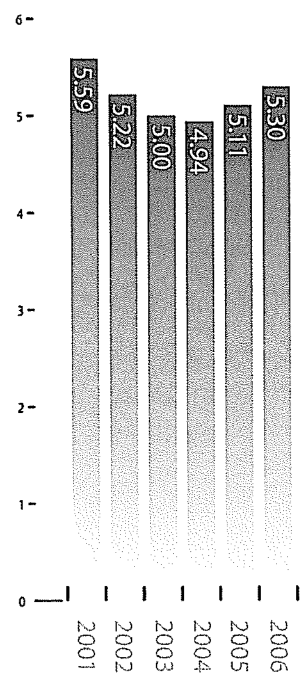
Gross interest expense was $84.8 million. The prime rate increased from 7.25 percent to 8.25 percent during 2006. During the year, Federal Financing Bank (FFB) interest rates for long-term advances increased from 4.66 to 4.82 percent.

Of the total $1,701.1 million debt outstanding, current interest rates range from a low of 2 percent to a high of 10.66 percent for 2006. The average annual rate on all debt increased from 5.1 percent in 2005 to 5.3 percent in 2006.

Virtually all of East Kentucky's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $109.2 million of pollution control and solid waste disposal revenue floating/fixed rate bonds is being kept in the variable rate mode. This rate averaged 3.51 percent for 2006.

Average Interest Rate on Long-Term Debt Year-End

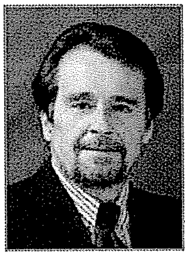
Average %



OPERATIONS, SERVICES & SUPPORT COMMITTEE

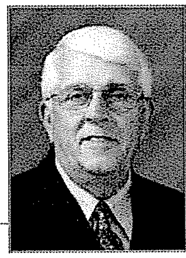
Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs and other corporate functions.

BOARD MEMBERS



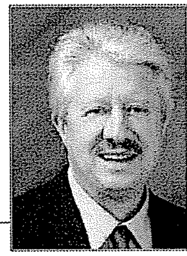
Grayson RECC

Donnie
Crum



Cumberland Valley
Electric

Elbert
Hampton

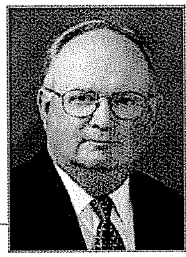


Big Sandy RECC

Wade
May

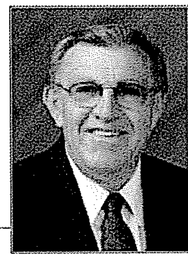
Farmers RECC

Randy
Sexton



Clark Energy

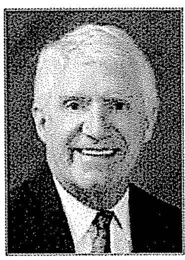
Bill
Shearer



Fleming-Mason
Energy
Vice-Chairman

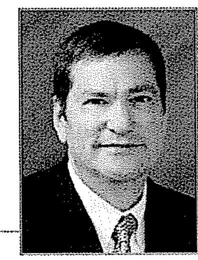
Lonnie
Vice

SYSTEM MANAGERS



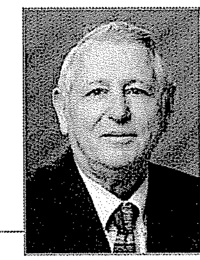
Blue Grass Energy

Dan
Brewer



Salt River Electric

Larry
Hicks



Owen Electric

Bob
Hood

Licking Valley RECC

Kerry
Howard

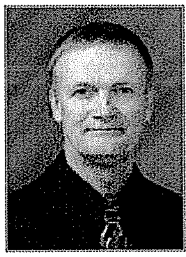
Shelby Energy

Debbie
Martin

FUEL & POWER SUPPLY COMMITTEE

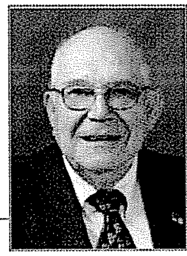
Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS



Taylor County RECC

P.D.
Depp

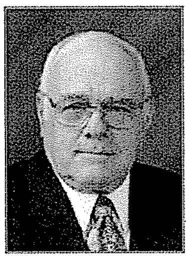


Blue Grass Energy

E.A.
Gilbert

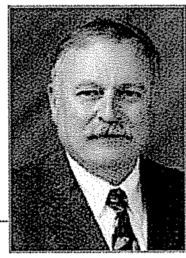
Owen Electric

Hope
Kinman



Salt River Electric

Jimmy
Longmire



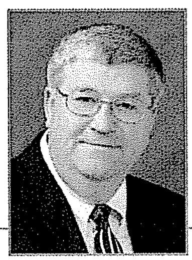
Shelby Energy
Chairman

Wayne
Stratton

SYSTEM MANAGERS

South Kentucky
Rural Electric

Allen
Anderson



Inter-County Energy

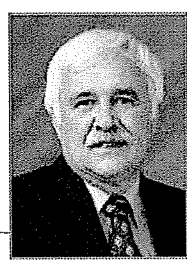
Jim
Jacobus

Nolin RECC

Mickey
Miller

Jackson Energy

Don
Schaefer



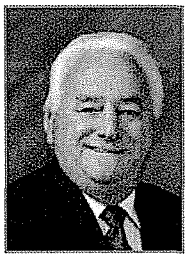
Big Sandy RECC

Bobby
Sexton

POWER DELIVERY COMMITTEE

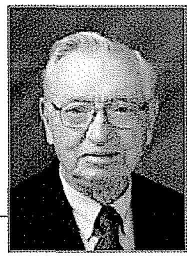
Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

BOARD MEMBERS



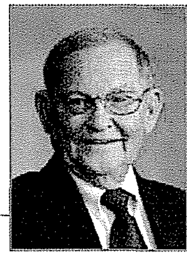
Licking Valley RECC

Mike
Adams



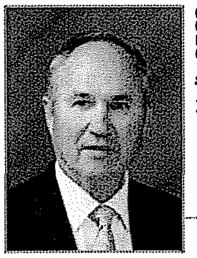
Jackson Energy

Fred
Brown



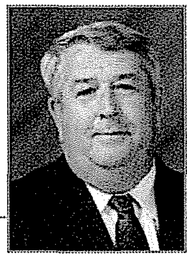
Inter-County Energy

Danny
Divine



Nolin RECC
Secretary/Treasurer

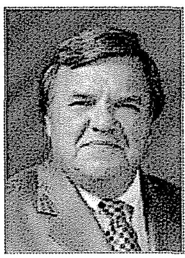
A.L.
Rosenberger



South Kentucky
Rural Electric

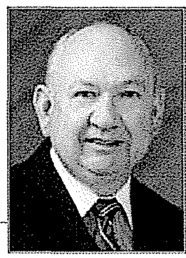
Rick
Stephens

SYSTEM MANAGERS



Farmers RECC

Jackie
Browning

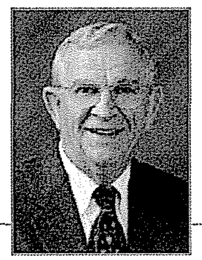


Clark Energy

Paul
Embs

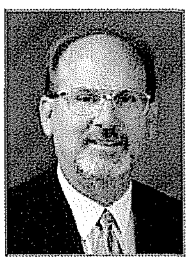
Grayson RECC

Carol Ann
Fraley



Cumberland Valley
Electric

Ted
Hampton



Taylor County RECC

Barry
Myers

Fleming-Mason
Energy

Chris
Perry

AUDIT COMMITTEE

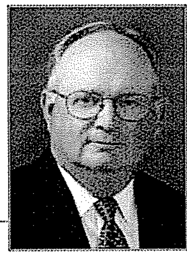
Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS

Fleming-Mason Energy

Vice-Chairman

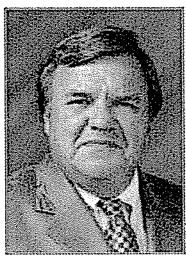
Lonnie Vice



Clark Energy

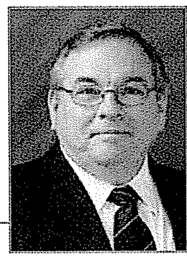
Bill Shearer

SYSTEM MANAGERS



Farmers RECC

Jackie Browning



Jackson Energy

Don Schaefer

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

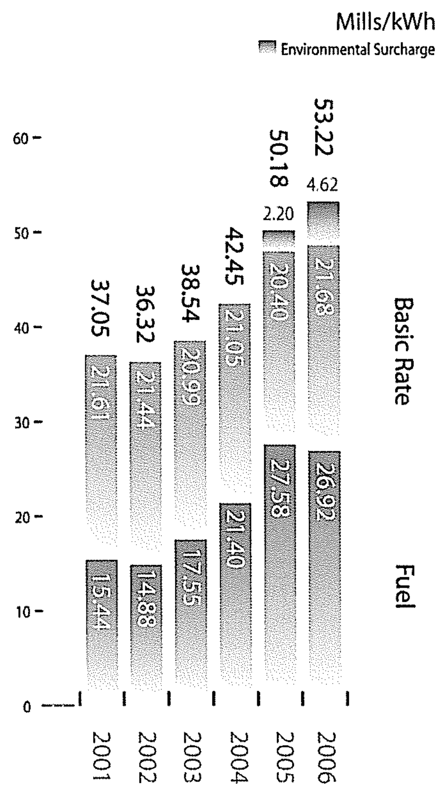
The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Crowe Chizek and Company LLC, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Crowe Chizek and Company LLC and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Crowe Chizek and Company LLC has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Bob Marshall
President and CEO

David G. Eames
Vice President,
Finance

Power Cost to Members



Crowe

REPORT OF INDEPENDENT AUDITORS

To the Audit Committee
East Kentucky Power Cooperative, Inc.
and Subsidiary

We have audited the accompanying consolidated balance sheets of East Kentucky Power Cooperative, Inc. and Subsidiary (the Cooperative) as of December 31, 2006 and 2005, and the related consolidated statements of revenue and expenses, changes in members' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of East Kentucky Power Cooperative, Inc. and Subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2007 on our consideration of East Kentucky Power Cooperative, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Crowe Chizek and Company LLC

Lexington, Kentucky
March 14, 2007

Crowe Chizek and Company LLC

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
ASSETS		
Electric plant, at original cost		
In-service	$ 2,079,932	$ 2,039,674
Construction in progress	402,387	152,585
	2,482,319	2,192,259
Less accumulated depreciation	798,533	774,996
Electric plant, net	1,683,786	1,417,263
Long-term accounts receivable	8,572	9,002
Investment securities		
Available for sale	43,956	42,581
Held to maturity	8,216	8,237
Current assets		
Cash and cash equivalents	69,202	43,863
Accounts receivable	62,091	77,663
Fuel	44,682	39,236
Materials and supplies	37,129	33,578
Emission allowances	58,920	4,087
Other	1,986	1,769
Total current assets	274,010	200,196
Deferred charges	4,499	4,751
Other	7,053	5,864
Total assets	$ 2,030,092	$ 1,687,894
LIABILITIES AND MEMBERS' EQUITIES		
Members' equities	$ 107,033	$ 96,108
Long-term debt, excluding current portion	1,643,305	1,339,263
Current liabilities		
Current portion of long-term debt	57,782	53,085
Accounts payable	90,977	75,855
Accrued expenses	23,846	20,101
Total current liabilities	172,605	149,041
Accrued postretirement benefit cost	48,663	46,604
Other	58,486	56,878
Total liabilities and members' equities	$ 2,030,092	$ 1,687,894

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Operating revenue	$ 650,960	$ 631,297
Operating expenses		
Production		
Fuel	278,210	263,434
Other	113,382	103,632
Purchased power	76,781	109,571
Transmission and distribution	27,557	21,029
Depreciation	39,384	52,038
General and administrative	38,436	38,642
	573,750	588,346
Operating margins	77,210	42,951
Interest expense	84,834	69,844
Net operating deficit	(7,624)	(26,893)
Nonoperating margins		
Interest income	8,433	5,898
Allowance for interest on borrowed funds used during construction	9,192	6,226
Assessments	-	(32,555)
Miscellaneous	858	742
	18,483	(19,689)
Capital credits and patronage capital allocations	315	575
Net margin (deficit)	$ 11,174	$ (46,007)

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income	Total Members' Equities
Balances, January 1, 2005	$ 2	$ 138,393	$ 3,035	$ 620	$ 142,050
Comprehensive loss					
Net deficit	-	(46,007)	-	-	(46,007)
Unrealized gains on investments available for sale	-	-	-	65	65
Total comprehensive loss					(45,942)
Balances, December 31, 2005	2	92,386	3,035	685	96,108
Comprehensive income					
Net margin	-	11,174	-	-	11,174
Unrealized losses on investments available for sale	-	-	-	(249)	(249)
Total comprehensive income					10,925
Balances, December 31, 2006	$ 2	$ 103,560	$ 3,035	$ 436	$ 107,033

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Cash flows from operating activities		
Net margin (deficit)	$ 11,174	$ (46,007)
Adjustments to reconcile net deficit to net cash from operating activities		
Depreciation	39,384	52,038
Amortization of loan costs	2,843	1,418
Changes in:		
Accounts receivable	15,572	(21,156)
Fuel	(19,237)	(21,158)
Materials and supplies	(4,034)	(6,206)
Emission allowances	(54,833)	(3,888)
Accounts payable, trade	43,810	42,630
Accrued expenses	3,745	3,980
Accrued postretirement benefit cost	2,059	1,972
Other	(18,236)	33,669
Net cash from operating activities	22,247	37,292
Cash flows from investing activities		
Additions to electric plant	(304,474)	(190,277)
Maturities and calls of securities available for sale	57,785	79,465
Purchases of securities available for sale	(59,409)	(82,278)
Maturities of securities held to maturity	21	14,311
Payments received on long-term accounts receivable	430	799
Net cash from investing activities	(305,647)	(177,980)
Cash flows from financing activities		
Proceeds from long-term debt	360,000	345,132
Principal payments on long-term debt	(51,261)	(220,691)
Net cash from financing activities	308,739	124,441
Net change in cash and cash equivalents	25,339	(16,247)
Cash and cash equivalents at beginning of year	43,863	60,110
Cash and cash equivalents at end of year	$ 69,202	$ 43,863

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 82,183	$ 65,925
Non-cash operating transaction		
Fuel included in accounts payable	$ 13,791	$ 18,434
Materials and supplies included in accounts payable	483	-
Non-cash investing transaction		
Additions to electric plant included in accounts payable	$ 14,414	$ 23,332
Unrealized (losses) gains on securities available for sale	(249)	65

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Cooperative is engaged in generating and transmitting electrical power primarily to its sixteen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (KPSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises.

Principles of Consolidation: The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Electric Plant: Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Provision for depreciation has been made on the basis of estimated useful lives at straight-line composite rates or end dates generally as follows:

Production plant	years 2019 - 2045
Transmission and distribution plant	0.71% - 3.42%
General plant	2.00% - 20.00%

Long-Term Assets: Electric plant and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2006 or 2005.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Interest on Borrowed Funds Used During Construction: In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000.

Investment Securities: Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity. Investment securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is not temporary.

Revenue and Fuel Costs: Revenue is recorded monthly based on meter readings made at month-end.

The state regulatory authority has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales.

In September 2004, the Cooperative applied to the KPSC for the recovery of certain costs incurred in compliance with the Federal Clean Air Act. This environmental surcharge was effective for service rendered on or after July 1, 2005, and is being billed on a percentage of revenue basis.

The Cooperative's sales are primarily to its member cooperatives and amounted to approximately $645,476,000 and $620,509,000 for 2006 and 2005, respectively. Accounts receivable at December 31, 2006 and 2005 were primarily from billings to member cooperatives. At December 31, 2006 and 2005, individual account balances that exceeded 10 percent of total accounts receivable are as follows:

	2006	2005
Owen Electric Cooperative	$ 8,748,000	$10,137,000
South Kentucky RECC	6,408,000	-
Blue Grass Energy Cooperative	6,304,000	-

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: For purposes of the consolidated financial statements, the Cooperative considers temporary investments having a maturity of three months or less when purchased to be cash equivalents.

At December 31, 2006 and 2005, respectively, the Cooperative had $1,205,394 and $674,661 of cash on deposit at one bank, which is in excess of federally insured limits.

Fuel and Materials and Supplies: Inventories of fuels and materials and supplies are stated at average cost.

Emission Allowances: Title IV of the Clean Air Act Amendments of 1990 provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants. Allowances are stated at cost. Issuances of allowances are recognized using a monthly weighted-average method of cost determination. Gains and losses are recorded upon the disposition of allowances.

Members' Equities: Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members. In addition, any available capital credits will also be allocated to members on a contribution-to-gross margins basis.

A provision in the Cooperative's bylaws prohibits the return of capital contributed by patrons unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 40 percent of total assets. In addition, provisions of certain loan agreements prohibit the retirement of capital until stipulated requirements as to liquid assets (cash and U.S. Government obligations) are met. Accordingly, at December 31, 2006, no patronage capital was available for refunds or retirement.

Comprehensive Income: Comprehensive income includes both net margin (deficit) and other comprehensive income. Other comprehensive income represents the change in unrealized gains and losses on securities available for sale.

Income Taxes: The Cooperative is exempt under section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85 percent of its gross income is derived from members but is responsible for income taxes on certain unrelated business income.

Reclassifications: Certain 2005 amounts have been reclassified in these consolidated financial statements to conform to the 2006 presentation. Such reclassifications had no effect on net deficit or members' equities as previously presented.

(Continued)

NOTE 2 – ELECTRIC PLANT

Electric plant in-service consisted of the following:

	2006	2005
	(in thousands)	
Production plant	$ 1,558,660	$ 1,141,340
Transmission plant	432,580	409,889
General plant	68,517	69,724
Completed construction, not classified and other	20,175	418,721
Electric plant in service	$ 2,079,932	$ 2,039,674

Depreciation expense was $39,384,000 and $52,038,000 for 2006 and 2005, respectively.

As required by the KPSC environmental surcharge order (addressed in Note 1), the Cooperative engaged an outside firm to conduct a depreciation study. As a result, useful lives of production plant were extended, and rates on transmission and distribution plant were changed. These changes in estimated useful lives reduced 2006 depreciation expense by approximately $16.1 million.

NOTE 3 – LONG-TERM ACCOUNTS RECEIVABLE

Long-term receivables include modifications to Spurlock Power Station in order to provide steam to a paper mill that recycles container board. The paper mill is reimbursing the Cooperative for the cost of the modifications through a monthly facilities charge over the 20-year life of the contract. Long-term receivables also include interest-bearing notes from joint ventures owned by the Cooperative and four of the Cooperative's member systems for the buyout of a propane company. The joint ventures of the member systems will make five years of interest-only (prime rate minus one-half of one percent, adjust annually) payments, with principal and interest payments beginning in 2005. The notes will be payable in full in 2015.

(Continued)

NOTE 4 – INVESTMENT SECURITIES

Amortized cost and estimated fair value of investment securities available for sale at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2006				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	39,698	28	-	39,726
Zero Coupon Bond	2,737	397	-	3,134
Other	1,061	11	-	1,072
	$ 43,520	$ 436	$ -	$ 43,956
2005				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	37,374	-	(10)	37,364
Zero Coupon Bond	2,563	465	-	3,028
Other	1,935	230	-	2,165
	$ 41,896	$ 695	$ (10)	$ 42,581

Proceeds from maturities and calls of securities were $57,785,000 and $79,465,000 in 2006 and 2005, respectively. There were no realized gains or losses on those calls.

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Amortized cost and estimated fair value of investment securities held to maturity at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2006				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (459)	$ 7,196
6.5875% subordinated term certificate	455	87	-	542
0% subordinated term certificate	106	-	(26)	80
	$ 8,216	$ 87	$ (485)	$ 7,818
2005				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (1,624)	$ 6,031
6.5875% subordinated term certificate	470	113	-	583
0% subordinated term certificate	112	-	(28)	84
	$ 8,237	$ 113	$ (1,652)	$ 6,698

NOTE 4 – INVESTMENT SECURITIES (Continued)

Investment securities held to maturity with unrealized losses at December 31 not recognized in net margin (deficit) are as follows (in thousands):

	Unrealized Loss Less than 12 months		Unrealized Loss 12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2006				
3-5% capital term certificates	$ -	$ -	$ 7,196	$ (459)
0% subordinated term certificate	-	-	80	(26)
	$ -	$ -	$ 7,276	$ (485)
2005				
3-5% capital term certificates	$ -	$ -	$ 6,031	$ (1,624)
0% subordinated term certificate	-	-	84	(28)
	$ -	$ -	$ 6,115	$ (1,652)

The maturity dates on the above securities range from 2019 to 2080 and have no available trading market. However, it is management's intent to hold these securities until maturity, at which time management expects to recover full value.

The amortized cost and fair value of securities at December 31, 2006, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Available for sale		
Due in one year or less	$ 40,063	$ 40,085
Due after one year through five years	2,396	2,799
Due after ten years	1,061	1,072
	$ 43,520	$ 43,956
Held to maturity		
Due after ten years	$ 8,216	$ 7,818
	$ 8,216	$ 7,818

(Continued)

NOTE 5 – LONG-TERM DEBT

Long-term debt outstanding at December 31, 2006 and 2005 consisted of the following (in thousands):

	2006	2005
First mortgage notes:		
4.241% - 10.657%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2038	$ 1,108,580	$ 1,107,491
2%, 5%, and 5.125% payable quarterly to RUS in varying amounts through 2024	49,507	54,643
3.8%, payable quarterly to CFC in varying amounts through 2014	20,440	21,769
Fixed rate loan, 7.7%, payable semiannually in varying amounts to National Cooperative Services Corporation through 2012	8,400	9,600
Promissory notes:		
6.20% - 6.45% variable rate note payable to CFC in 2010	405,000	80,000
Pollution control bonds:		
Series 1984B, variable rate bonds, due October 15, 2014, 4.03% at December 31, 2006 and 3.70% at December 31, 2005	82,100	88,600
Series 1984J, variable rate bonds, due October 15, 2014, 3.55% at December 31, 2006 and 2.95% at December 31, 2005	18,260	21,145
Solid waste disposal revenue bonds, Series 1993B, variable rate bonds, due August 15, 2023, interest rate 3.68% at December 31, 2006 and 2.85% at December 31, 2005	8,800	9,100
	1,701,087	1,392,348
Less current portion of long-term debt	57,782	53,085
	$ 1,643,305	$ 1,339,263

(Continued)

NOTE 5 – LONG-TERM DEBT (Continued)

In September 2002, RUS approved a loan application in the amount of $223,500,000 for the design, purchase, and installation of NOx reduction equipment and electrostatic precipitators, including plant modifications and related expenditures on Spurlock Power Station Units No. 1 and 2. Advances on these loans are subject to certain conditions outlined by RUS, and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2006, $15,200,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $433,863,000 for the construction of the Gilbert Unit at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2006, $49,863,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $27,645,000 for the construction of five landfill gas to energy generating units including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2006, $14,453,000 of these amounts remained to be advanced.

In May 2005, RUS approved a loan application in the amount of $55,240,000 for the construction of two additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2006, $2,240,000 of these amounts remained to be advanced.

In August 2005, RUS approved a loan application in the amount of $64,240,000 for the construction of various transmission projects. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2006, this loan has not been cleared by RUS for advance of loan funds.

In September 2005, the Cooperative entered into an unsecured credit facility syndicate with the co-arrangers of CFC and the Bank of Tokyo-Mitsubishi. This loan was approved for a total of $650,000,000 for general operating expenses and capital construction projects. As of December 31, 2006, $245,000,000 of this amount remained to be advanced.

NOTE 5 – LONG-TERM DEBT (Continued)

In March 2006, RUS approved a loan application in the amount of $481,388,000 for the construction of the Unit #4 at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2006, this loan has not been cleared by RUS for advance of loan funds.

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5 percent per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act. As of December 31, 2006 and 2005, the Cooperative's cushion of credit account balance was $75,875,000 and $26,375,000.

The interest rate on the Series 1984B Pollution Control Bonds is subject to change weekly and the interest rate on the Series 1984J Pollution Control Bonds and the Series 1993B Solid Waste Disposal Revenue Bonds are subject to change semiannually. The interest rate adjustment period on any series of the above-mentioned variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis or to a fixed-rate basis, at the option of the Cooperative.

Long-term pollution control and solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds. Debt service reserve requirements are as follows: Series 1984B - $12,717,000; Series 1984J - $5,368,500; and Series 1993B - $1,062,000. In addition, mandatory sinking fund payments are required for each series as follows: Series 1984B – payments range from $7,500,000 in 2007 to $13,150,000 in 2013; Series 1984J – payments range from $3,190,000 in 2007 to $4,325,000 in 2010; and Series 1993B – payments range from $300,000 in 2007 to $700,000 in 2023. Debt service reserve and construction funds are held by trustees and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in investment securities available for sale and have a fair value of approximately $20,567,000 at December 31, 2006.

Estimated maturities of long-term debt for the five years subsequent to December 31, 2006 are as follows: 2007 - $57,782,000; 2008 - $60,438,000; 2009 - $63,618,000; 2010 - $471,990,000; 2011 - $70,241,000; and thereafter - $977,018,000.

NOTE 5 – LONG-TERM DEBT (Continued)

Under the terms of the loan agreements with RUS, CFC and institutional investors, the Cooperative is required to maintain certain levels of members' equities, interest coverage, and debt service coverage. Because of the 2006 Environmental Protection Agency ("EPA") Notice of Violation discussed in detail in Note 7, the Cooperative was in technical default of the members' equities covenant related to the $80,000,000 in outstanding debt under the Credit Facility in 2005. Under the terms of the Credit Facility loan agreement, the required lenders had the right to immediately demand payment of the entire principal and interest balances owed them, or to terminate the loan commitment. On April 6, 2006, the required lenders waived their rights related to this technical default. On April 6, 2006, the covenants in the Credit Facility loan agreement were modified and the Cooperative was in compliance with the amended agreement.

Effects of this Notice of Violation have caused the Cooperative not to meet certain loan covenants as of December 31, 2006. Although the Cooperative is not in default of any of its loan agreements, the lenders have required the Cooperative to file a plan of corrective action. The Cooperative has developed a plan of corrective action and presented it to the lenders.

Substantially all assets are pledged as collateral for first mortgage notes payable to the United States of America (RUS and FFB) and CFC.

NOTE 6 – RETIREMENT BENEFITS

Pension Plan: Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association's Retirement and Security Program, a multi-employer defined benefit plan. The Cooperative's required contributions were approximately $7,883,000 and $7,094,000 for 2006 and 2005, respectively. The Cooperative expects to contribute approximately $8,500,000 to the plan in 2007.

Retirement Savings Plan: The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Cooperative makes matching contributions to the account of each participant up to 2 percent of the participant's compensation. The Cooperative contributed approximately $775,000 and $743,000 to the plan in 2006 and 2005, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative. The Cooperative expects to contribute approximately $743,000 to the plan in 2007.

(Continued)

NOTE 6 – RETIREMENT BENEFITS (Continued)

Supplemental Death Benefit Plan: The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the consolidated financial statements.

Postretirement Medical Benefits: The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50 percent of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan. The plan is not funded.

The following table sets forth the plan's status reconciled with the amount shown in the Cooperative's balance sheets at December 31, 2006 and 2005 (dollars in thousands):

	2006	2005
Change in plan assets:		
Fair value of plan assets at beginning of year	$	$ -
Employer contribution	487	611
Plan participants' contribution	487	610
Benefits paid	(974)	(1,221)
Fair value of plan assets at end of year	-	-
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 35,151	$ 34,258
Service cost-benefits attributed to service during the period	1,219	1,166
Interest cost on accumulated postretirement benefit obligation	2,095	1,931
Benefits paid	(974)	(1,221)
Plan participants' contribution	487	610
Actuarial gain	249	(1,593)
Benefit obligation at end of year	38,227	35,151

(Continued)

NOTE 6 – RETIREMENT BENEFITS (Continued)

	2006	2005
Funded status	$ (38,227)	$ (35,151)
Unrecognized actuarial gain	(10,436)	(11,453)
Accrued benefit cost	$ (48,663)	$ (46,604)
Components of net periodic postretirement benefit cost (dollars in thousands):		
Service cost-benefits attributed to service during the period	$ 1,219	$ 1,166
Interest cost on accumulated postretirement benefit obligation	2,095	1,931
Amortization of unrecognized actuarial gain	(767)	(514)
Net periodic benefit cost	$ 2,547	$ 2,583

The discount rate used in determining the accumulated postretirement benefit obligation for 2006 and 2005 was 6.00%.

The Cooperative expects to contribute approximately $805,000 to the plan in 2007.

The following expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

2007	$ 805
2008	934
2009	1,046
2010	1,173
2011	1,312
2012 - 2016	9,147
Total	$ 14,417

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2006. The rate is assumed to decline to 5 percent after five years.

NOTE 6 – RETIREMENT BENEFITS (Continued)

The health care cost trend rate assumption has a significant effect on the amounts reported.

		2006		2005
Effect on total of service cost and interest cost components (dollars in thousands)				
1-percentage-point increase	$	697	$	705
1-percentage-point decrease		(540)		(514)
Effect on postretirement benefit obligation (dollars in thousands)				
1-percentage-point increase	$	6,776	$	6,986
1-percentage-point decrease		(5,381)		(5,476)

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Cooperative is required to adopt SFAS 158 in 2007. Had the Cooperative adopted SFAS 158 in 2006, comprehensive income would have increased by approximately $10,436,000.

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES

The Cooperative has entered into long-term power purchase agreements having minimum payment obligations for the five years subsequent to December 31, 2006 as follows (dollars in thousands):

2007	$	4,553
2008		5,314
2009		7,595
2010		7,595
2011		7,595

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

The Cooperative is committed to purchase coal for its generating plants under long-term contracts having minimum purchase obligations as follows (dollars in thousands):

2007	$ 163,741
2008	99,612
2009	85,845
2010	56,334
2011	45,159

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price re-openers.

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1,000,000 for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the consolidated financial statements.

On January 28, 2004, the federal Environmental Protection Agency (EPA) sued the Cooperative alleging that physical or operating changes to three coal-fired generators resulted in simultaneous violations of the Prevention of Significant Deterioration provision of the Clean Air Act; the New Source Performance Standards of the Clean Air Act; and the State Implementation Plan for Kentucky, as approved by EPA. The lawsuit seeks injunctive relief, and civil penalties of up to $25,000 a day before January 31, 1997, and $27,500 a day since then.

As a result of this lawsuit, the Cooperative has done the following:

On January 17, 2006, EKPC filed four motions with the court asking that most, if not all of the claims, be dismissed. These motions for summary judgment involved,

(a) statute of limitation issues;
(b) federal enforceability of the Spurlock No. 2 operating permit;
(c) applicability of the routine maintenance exclusion; and
(d) calculation of emissions under PSD based on post-change actual annual emission where the baseline emission calculations are based on actual historic annual emissions prior to project work, and not based on hypothetical emissions.

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

On September 26, 2006, the court issued an order dismissing most of the government's motions without prejudice pending a final decision in a similar case. A decision in this similar case is expected in summer 2007.

The Cooperative believes that when all the evidence is presented, the facts will bear out that the Cooperative complied with the requirements, and acted in good faith.

On January 17, 2006, the Cooperative received a Notice of Violation (NOV) from the EPA alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units 1 and 2. At issue is EPA's allegation that the Cooperative incorrectly reported the turbine, rather than the generator, nameplate ratings, thus placing the Units under the Acid Rain Program. On February 10, 2006, the Cooperative received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's cover the years 2000 through 2004.

Under a strict application of the Acid Rain Program, owners and operators of a unit that is determined to have excess emissions of SO2 are subject to non-discretionary penalties, must surrender SO2 allowances to cover previous emissions, and also may be subject to discretionary penalties. There may also be penalties relating to NOx emissions requirements.

Because the Cooperative did not have emissions monitoring equipment in place on Dale Units 1 and 2, on March 1, 2006, the Cooperative petitioned EPA to allow the calculation of the emissions on coal burn fuel data versus missing data procedures. Depending on the resolution of this petition, an additional $68,000,000 in non-discretionary penalties could be assessed. At this time, it is not possible to predict the likelihood of success or whether these non-discretionary penalties could be waived or reduced by the agency or a court. The Cooperative is also required to surrender SO2 allowances to cover the emissions for 2000 through 2004. Additional expense to cover such emissions, assuming current market prices, could be $25,000,000. Civil penalties similar to those outlined above from the EPA lawsuit may also apply.

The Cooperative has certain generating plants that contain asbestos, which is required by law to be removed or contained if the plants are renovated or demolished. The Cooperative has no plans to retire any of its generating plants. Because there is an indeterminate settlement date for the asset retirement obligation, the range of time over which the Cooperative may settle the obligation is unknown. Therefore, a fair value determination of an asset retirement obligation cannot be reasonably estimated.

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

In September 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at Spurlock Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $522 million.

In November 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at the J.K. Smith Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $625 million.

In December 2004, the Board approved the construction of five gas-fired combustion turbines to be located at the Cooperative's J.K. Smith Power Station. Construction of three of the combustion turbines has been deferred until after 2009. The first two combustion turbines are expected to cost approximately $66 million and are scheduled to become operational in 2009.

In September 2005, the Board approved construction of a new limestone scrubber for Spurlock Unit 2, with a wet precipitator, at a cost of approximately $159 million.

In January 2006, the Board approved the construction of a new limestone scrubber for Spurlock Unit 1, with a wet precipitator, at a cost of approximately $145 million.

The construction projects mentioned above are subject to KPSC approval.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

<u>Cash and Cash Equivalents</u>: The carrying amount approximates fair value because of the short maturity of these instruments.

<u>Accounts Receivable and Accounts Payable</u>: The fair values of accounts receivable and payable are based on carrying value due to the short-term nature of the instruments.

<u>Investment Securities</u>: The fair values of investment securities are estimated based on quoted market prices for the same or similar investments.

<u>Long-Term Accounts Receivable</u>: The fair values of long-term accounts receivable are estimated based on quoted interest rates for similar maturities.

(Continued)

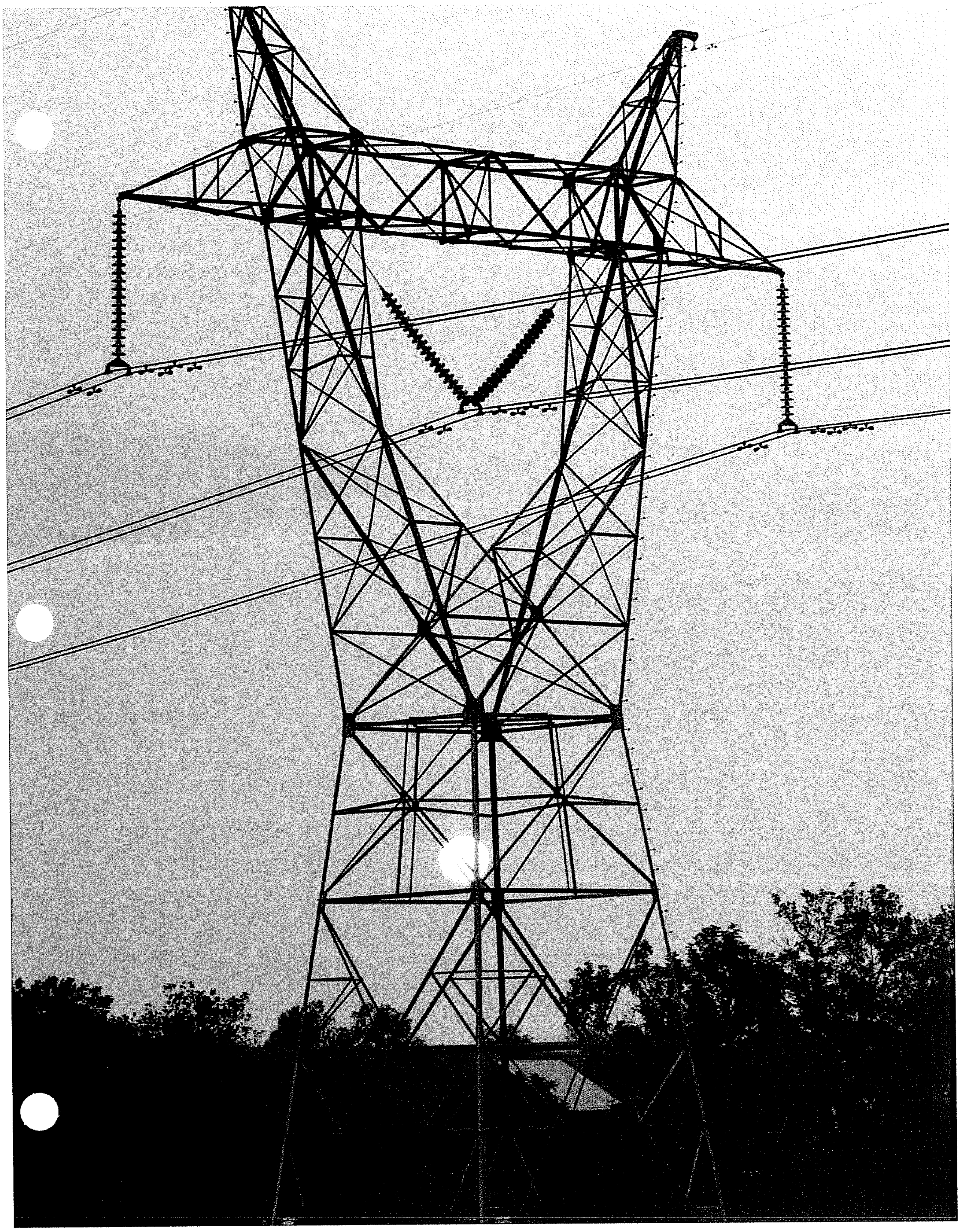
NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Notes Payable: The carrying amount approximates fair value because of the variable rate and payable on demand terms of the financial instrument.

Long-Term Debt: The fair value of the Cooperative's long-term debt that is practicable to estimate, is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Cooperative for debt of the same remaining maturities, including the appropriate redemption premium, if any.

The estimated fair values of the Cooperative's financial instruments are as follows (in thousands):

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 69,202	$ 69,202	$ 43,863	$ 43,863
Accounts receivable	62,091	62,091	77,663	77,663
Investment securities				
Available for sale	43,956	43,956	42,581	42,581
Held to maturity	8,216	7,818	8,237	6,698
Long-term accounts receivable	8,572	9,266	9,002	10,067
Financial liabilities				
Long-term debt	$1,701,087	$1,713,203	$1,392,348	$1,418,017
Accounts payable	90,977	90,977	75,855	75,855

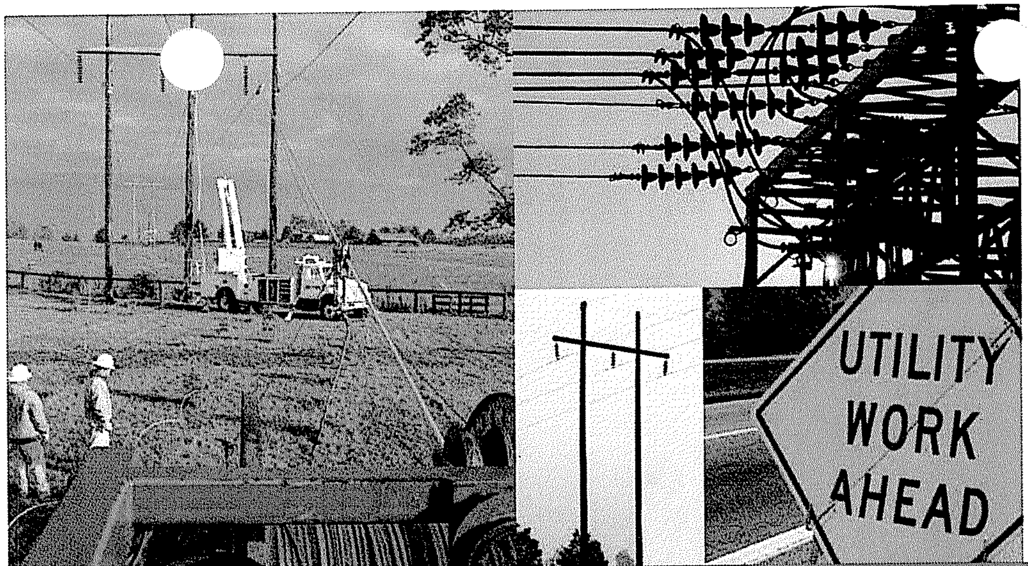


EAST KENTUCKY POWER COOPERATIVE

4775 Lexington Road, 40391
P.O. Box 707,
Winchester, KY 40392-0707
Telephone: 859-744-4812
Fax: 859-744-6008
www.ekpc.coop

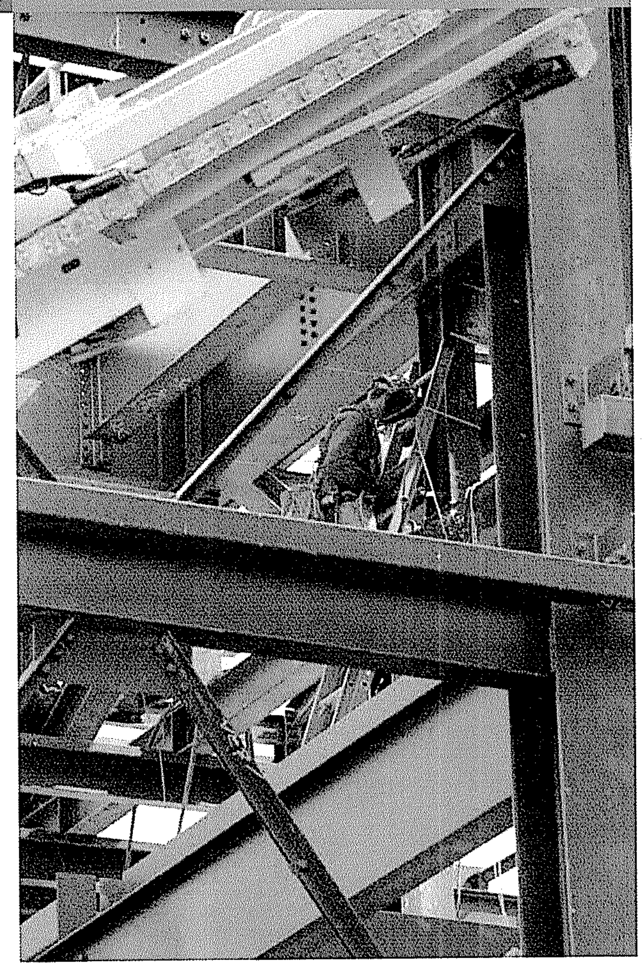
East Kentucky Power Cooperative, Inc.

2005 Annual Report



EAST KENTUCKY POWER COOPERATIVE

2005 ANNUAL REPORT

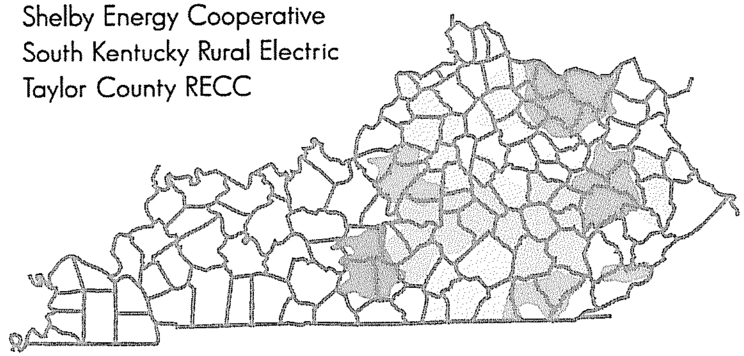


EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy® Cooperative

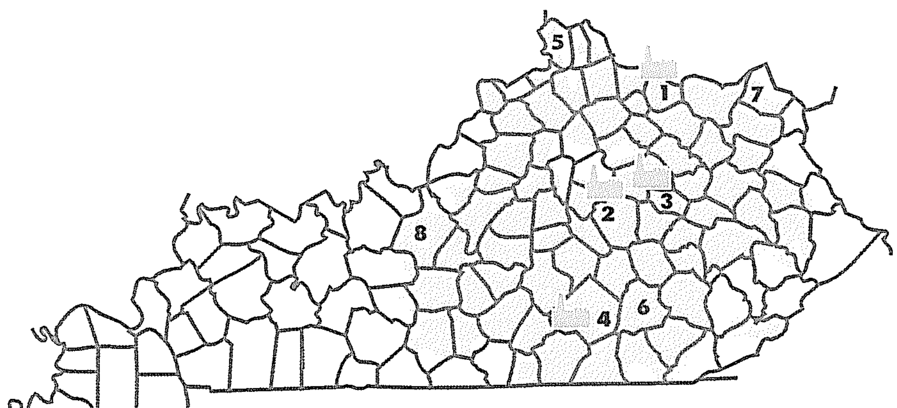
The 16 distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	1,118 net MW
2	Dale	196 net MW
3	Smith Combustion Turbine Units	Summer 626 net MW Winter 842 net MW
4	Cooper	341 net MW
Landfill Gas Plants		
5	Bavarian	3.2 net MW
6	Laurel Ridge	4.8 net MW
7	Green Valley	2.4 net MW
8	Pearl Hollow	2.4 net MW
Southeastern Power Adm. (SEPA), hydro power		170 MW



shows system wide service area

Table of Contents

Enclosed Documents

EAST KENTUCKY POWER COOPERATIVE

East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving almost 500,000 Kentucky homes, farms, businesses and industries across 89 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.

EAST KENTUCKY POWER COOPERATIVE

Financial Highlights (Dollars in Thousands)

	2005	2004	% Increase (Decrease)
Operating Revenue	**$631,297**	$505,681	24.8
Operating Expenses	**$588,346**	$497,737	18.2
Net Deficit	**($46,007)**	($27,267)	68.7
Fuel Expenses for Generation	**$263,434**	$173,506	51.8
Purchased Power Cost	**$109,571**	$134,795	(18.7)
Interest Cost	**$69,844**	$54,490	28.2
Members' Equities	**$96,108**	$142,050	(32.3)
Construction Expenditures	**$162,607**	$205,015	(20.7)
Assets	**$1,687,894**	$1,558,161	8.3
Sales to Member Cooperatives (MWh)	**12,365,466**	11,807,384	4.7
System Peak Demand (MW)			
Winter Season	**2,642** *	2,711	(2.5)
Summer Season	**2,227**	2,041	9.1
Number of Member System Consumers	**496,906**	489,210	1.6

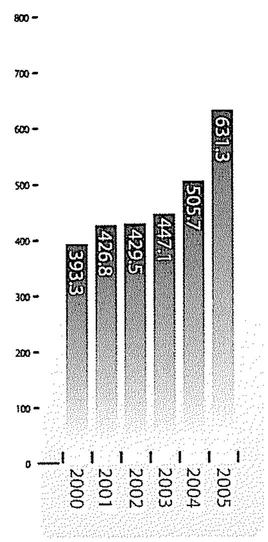
* set December 20, 2005

Five-Year Statistical Summary

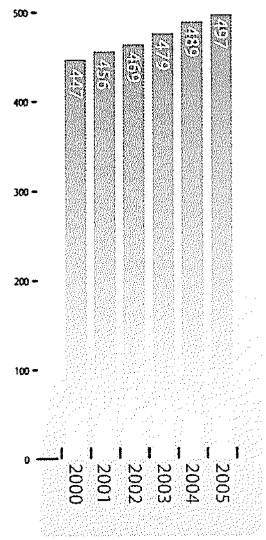
	2005	2004	2003	2002	2001
Net Margins - $1,000 (Deficit)	**($46,007)**	($27,267)	$29,398	$37,428	$30,418
TIER	**0.34**	0.49	1.66	1.95	1.81
DSC	**0.66**	0.72	1.35	1.73	1.76
Fuel Expense - $1,000	**$263,434**	$173,506	$137,103	$146,506	$132,044
Construction Expenditures -$1,000					
Generation	**$131,756**	$166,351	$221,949	$155,713	$137,155
Transmission	**$26,987**	$35,818	$27,101	$25,149	$18,691
General	**$3,864**	$2,846	$12,762	$9,649	$1,833
Investment In Facilities - $1,000					
Original Cost	**$2,192,259**	$2,025,314	$1,810,211	$1,558,890	$1,367,586
Long-Term Debt - $1,000	**$1,339,263**	$1,223,164	$952,987	$762,079	$688,839
Total Assets - $1,000	**$1,687,894**	$1,558,561	$1,328,532	$1,026,947	$912,811
Number of Employees - Full-Time	**635**	629	599	600	616
Cost of Coal Purchased					
$/ton	**$49.95**	$43.24	$34.13	$32.35	$32.93
$/MBtu	**$2.09**	$1.78	$1.39	$1.33	$1.36
Amount of Coal Purchased - tons	**4,559,035**	3,859,339	3,615,196	3,815,851	4,052,988
Generation - MWh	**11,105,626**	9,046,449	9,061,760	9,873,289	9,211,819
System Peak Demand - MW					
Winter Season	**2,642**	2,711	2,589	2,568	2,217
Summer Season	**2,227**	2,041	1,996	2,120	1,980
Sales to Other Utilities - MWh	**144,197**	53,466	71,224	513,874	899,286
Member Load Growth - %					
Energy	**4.7**	3.2	0.7	6.9	2.8
Demand	**6.2**	4.0	(0.6)	6.2	3.6
Load Factor - %	**52**	51	51	58	52
Miles of Line	**2,663**	2,638	2,629	2,607	2,579
Installed Capacity - kVA	**8,919,666**	8,863,666	8,824,466	8,722,747	8,637,947
Distribution Substations	**311**	304	299	292	284

2000-2005 information

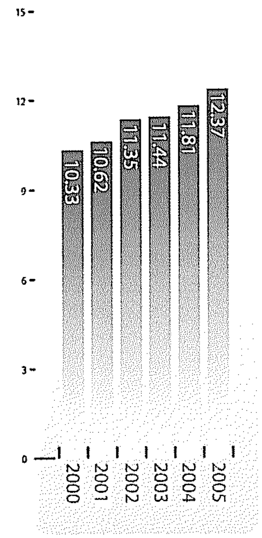
Operating Revenue
in $Millions



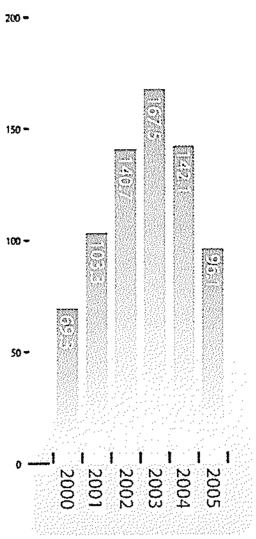
Member Consumer Meters
Year-End in Thousands



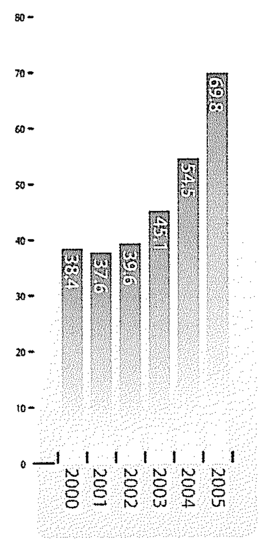
Energy Sales to Members
MWh in Millions



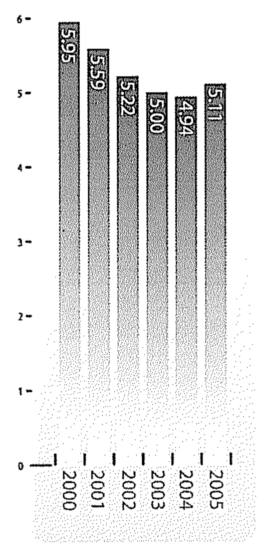
Members' Equities
Year-End in $Millions



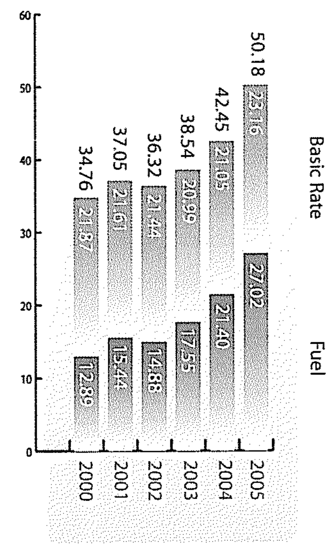
Interest Cost
in $Millions

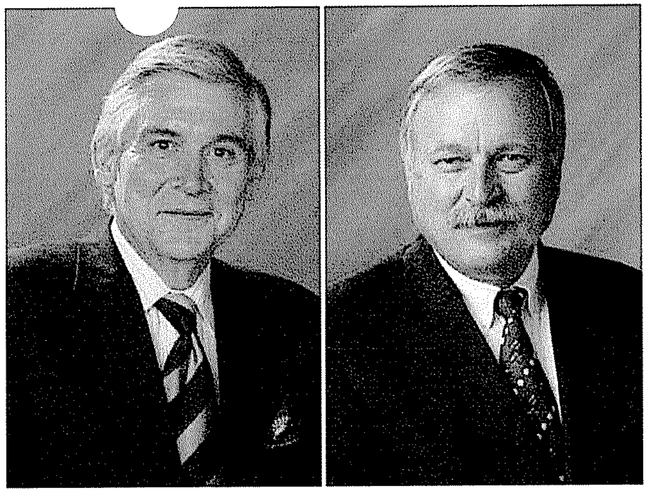


Average Interest Rate on Long-Term Debt Year-End
Average %



Power Cost to Members
Mills/kWh





from left:
Roy Palk, President and CEO
Wayne Stratton, Chairman of the Board

Rising to the Challenge

For East Kentucky Power Cooperative, 2005 ushered in an era of both unprecedented growth and unprecedented challenges.

In April, EKPC dedicated the 268-megawatt E.A. Gilbert Generating Unit at Spurlock Station in Maysville, Ky., and expressed appreciation to Ned Gilbert for more than 30 years of service to the people of Kentucky and the EKPC Board.

Utilizing a cutting-edge technology known as circulating fluidized bed (CFB) process, the unit features low emissions and will assist the Commonwealth with its new energy plan to maintain the lowest average electric rates in the nation.

Also integral to generating and transmitting the power needed to meet the system's unprecedented growth was the Kentucky Public Service Commission approval of construction of Spurlock Unit #4, a clean-coal unit that will be identical to the Gilbert Unit. The project is scheduled for completion by the end of the decade.

The unit will be essential in order to supply power to the newest EKPC member, Bowling Green, Ky.-based Warren RECC. The construction of Spurlock Unit #4 will create hundreds of jobs and bring millions of dollars in new tax revenues to local and state governments.

During 2005, EKPC also applied to the PSC for permission to build a third clean coal unit and five additional combustion turbines. Smith Unit #1 will be the first baseload unit located at J.K. Smith Station in Clark County.

EKPC also completed construction of its fourth renewable energy plant. The Pearl Hollow Landfill Gas-to-Electric Plant went commercial in January 2006.

Though great strides were made in 2005 to build the generation needed for the future, EKPC accomplished other major projects.

In October, the Kentucky Public Service Commission approved EKPC's application for the Warren RECC transmission project. This project will construct 97 miles of transmission lines, stretching from Barren to Ohio counties.

The PSC rejected a proposed transmission project in Rowan County, however, which is needed to alleviate transmission congestion on the system. After submitting additional information, EKPC refiled for permission to build along the same route, with additional documents supporting why EKPC's proposed route is preferred over alternatives.

Following months of debate and discussion during 2005, the Federal Energy Regulatory Commission (FERC) handed down a historic order in January 2006, issuing a final order that the Tennessee Valley Authority (TVA) must provide EKPC with three interconnections with its transmission system. EKPC successfully argued that the interconnections were needed to avoid the unnecessary duplication of facilities.

Rising fuel and environmental costs significantly impacted EKPC and utilities across the nation during 2005. After absorbing the costs of meeting EPA rules for nearly 12 years, EKPC obtained approval in February 2005 to begin recovering those costs by implementing an environmental surcharge. The surcharge was effective for service rendered on or after July 1, 2005.

Following hurricanes that hit the Gulf Coast during 2005, natural gas costs and other energy costs soared during the fall. The rise in natural gas costs impacted the system because transmission constraints increased the need to run combustion turbines.

As environmental compliance costs rose significantly during the fall, EKPC's Board approved the construction of a new scrubber on Spurlock Unit #2. Early in 2006, the Board also approved building a scrubber on Spurlock Unit #1.

In early 2006, EKPC recieved a Notice of Violation (NOV) from the Environmental Protection Agency on Dale Station Units #1 and #2. EKPC is working closely with regulatory officials to address the case.

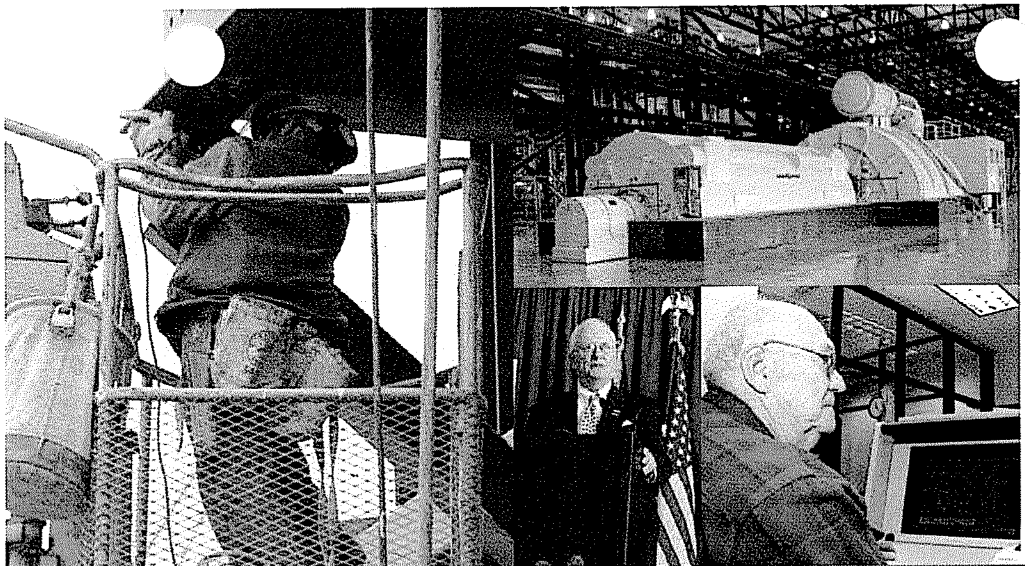
EKPC launched a Cost Containment initiative during 2005 that will review expenditures by each business unit. The Production Business Unit completed this effort during 2005 as teams of employees analyzed the major drivers of costs at EKPC. The effort is designed to contain costs wherever practical in an effort to increase competitiveness.

Rising costs for environmental compliance and fuel will likely continue to impact the bottom line of utilities for the foreseeable future, but EKPC remains committed to taking the steps that will ensure a strong future both for the Cooperative and its member systems.

Roy M. Palk

Roy M. Palk
President and CEO

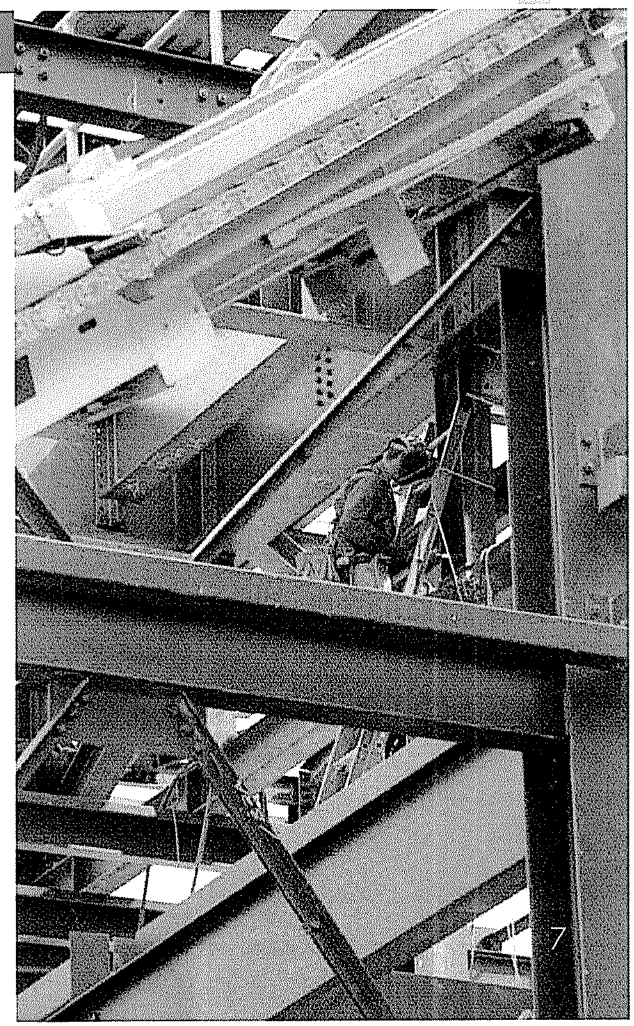
Wayne Stratton
Chairman of the Board



Public Service Commission Approves Spurlock Unit #4

In granting EKPC permission to construct Spurlock Unit #4, the PSC noted that EKPC will need the additional capacity to begin supplying power to Warren RECC in 2008, and concluded that the unit would be the most cost-effective way to meet future need for baseload generation. The 278-megawatt unit will rank among the cleanest coal generating units in the nation.

Gilbert Unit Dedicated, Named One of Top U.S. Plants



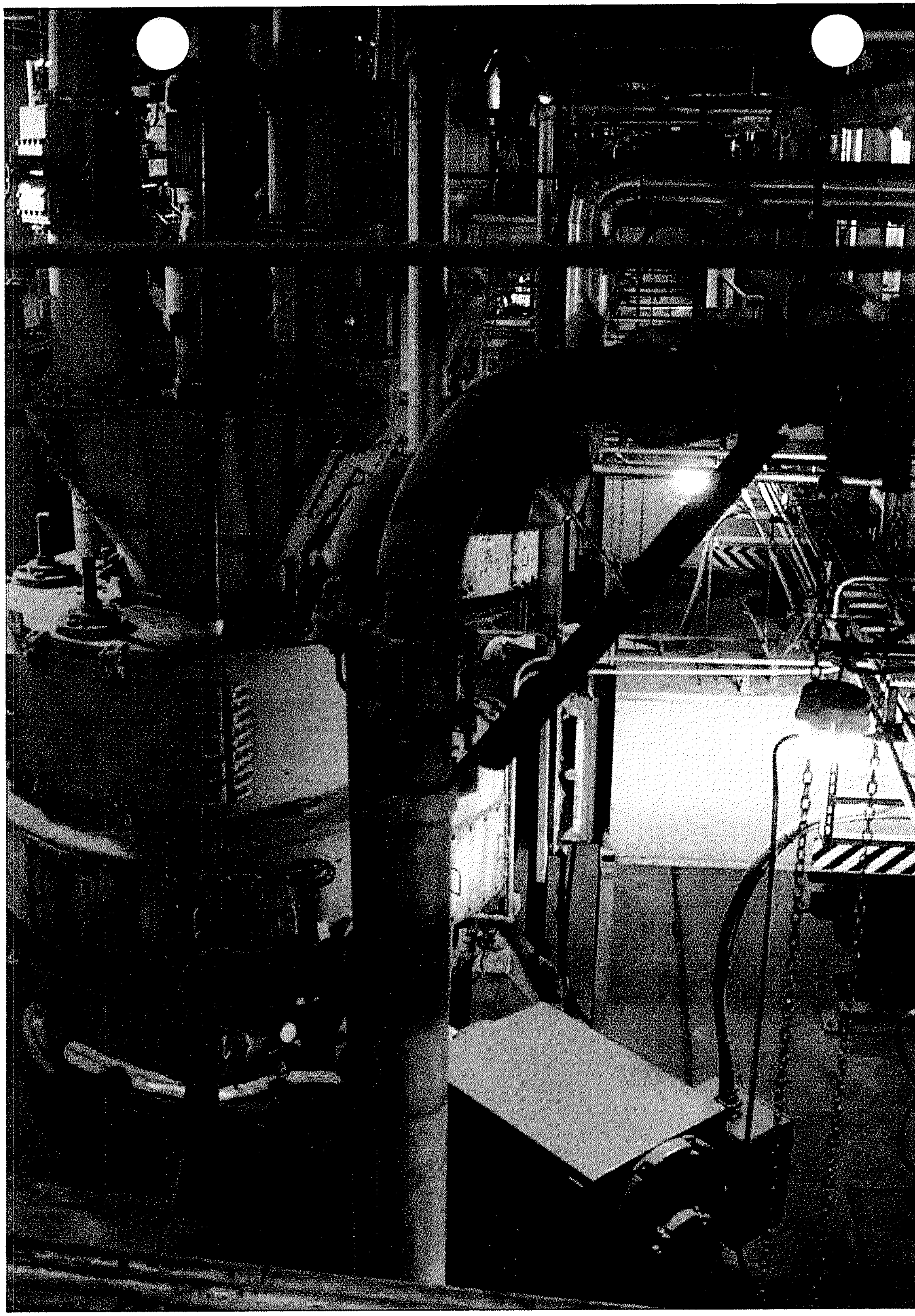
The 268-megawatt E.A. Gilbert Generating Unit at Spurlock Station, Kentucky's first coal-fired unit in 15 years, was dedicated in April and ranks as one of the cleanest coal-powered units in the nation, and the cleanest in Kentucky.

The Gilbert Unit is named after former EKPC Board Chairman E.A. "Ned" Gilbert, who played a crucial role in efforts to expand the benefits of rural electrification in Kentucky.

Hundreds of state and local leaders came to Spurlock Station in April to dedicate the unit. The unit produces 98 percent less sulfur dioxide and 80 percent less nitrogen oxide compared with conventional coal-powered plants. The unit went online March 1, 2005, one month ahead of schedule.

"This is the face of energy's future in Kentucky," said then state Commerce Secretary Jim Host, who spoke at the dedication. "The Gilbert Generating Unit is a $400 million investment in the environment, the economy and the people of Kentucky."

In its July/August issue, *Power Magazine* named the Gilbert Unit one of 2005's top electric power plants. *Power Engineering* magazine also named it one of the best power projects worldwide.

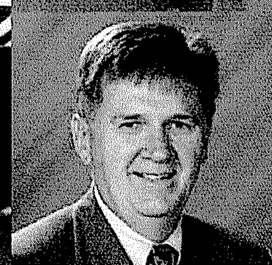


Environmental Compliance Costs Escalate

In February, the Kentucky PSC approved EKPC's application to recover compliance costs through an environmental surcharge. Government mandates for cleaner air have made it necessary for EKPC to install new equipment to reduce emissions.

In recent years, EKPC has spent more than $200 million installing environmental control equipment, including two selective catalytic reduction units and other emission controls.

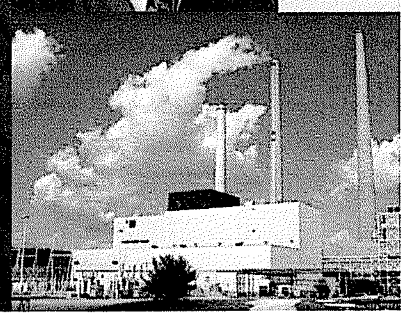
During the year, the environmental surcharge increased as EKPC and utilities across the nation saw significant increases in market costs to comply with the EPA emission allowance program for sulfur dioxide.

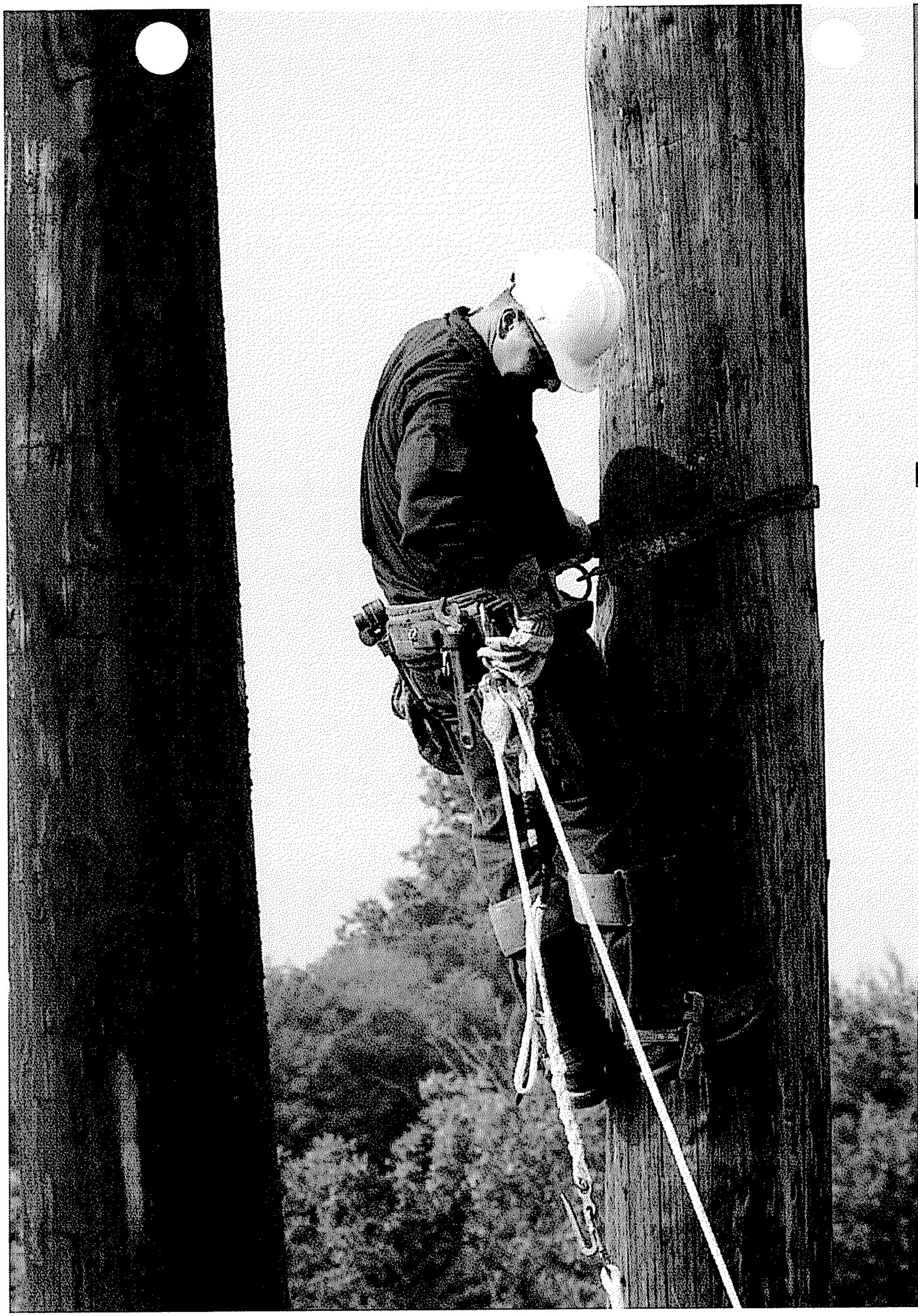


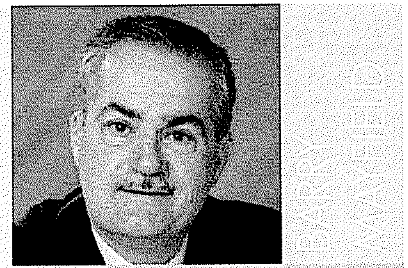
RANDY DIALS

Power Production

Responsible for operation and maintenance of the generating facilities, design engineering and construction of new generation, sustaining plant equipment through production engineering, fuel procurement, environmental affairs and generation dispatch.

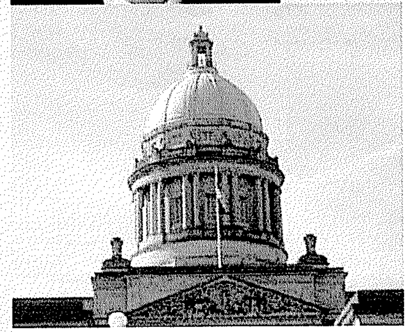






Governmental Affai

Oversees governmental relations at both the national and state levels, which includes monitoring all pertinent legislation and ensuring that cooperative principles are protected and enhanced.



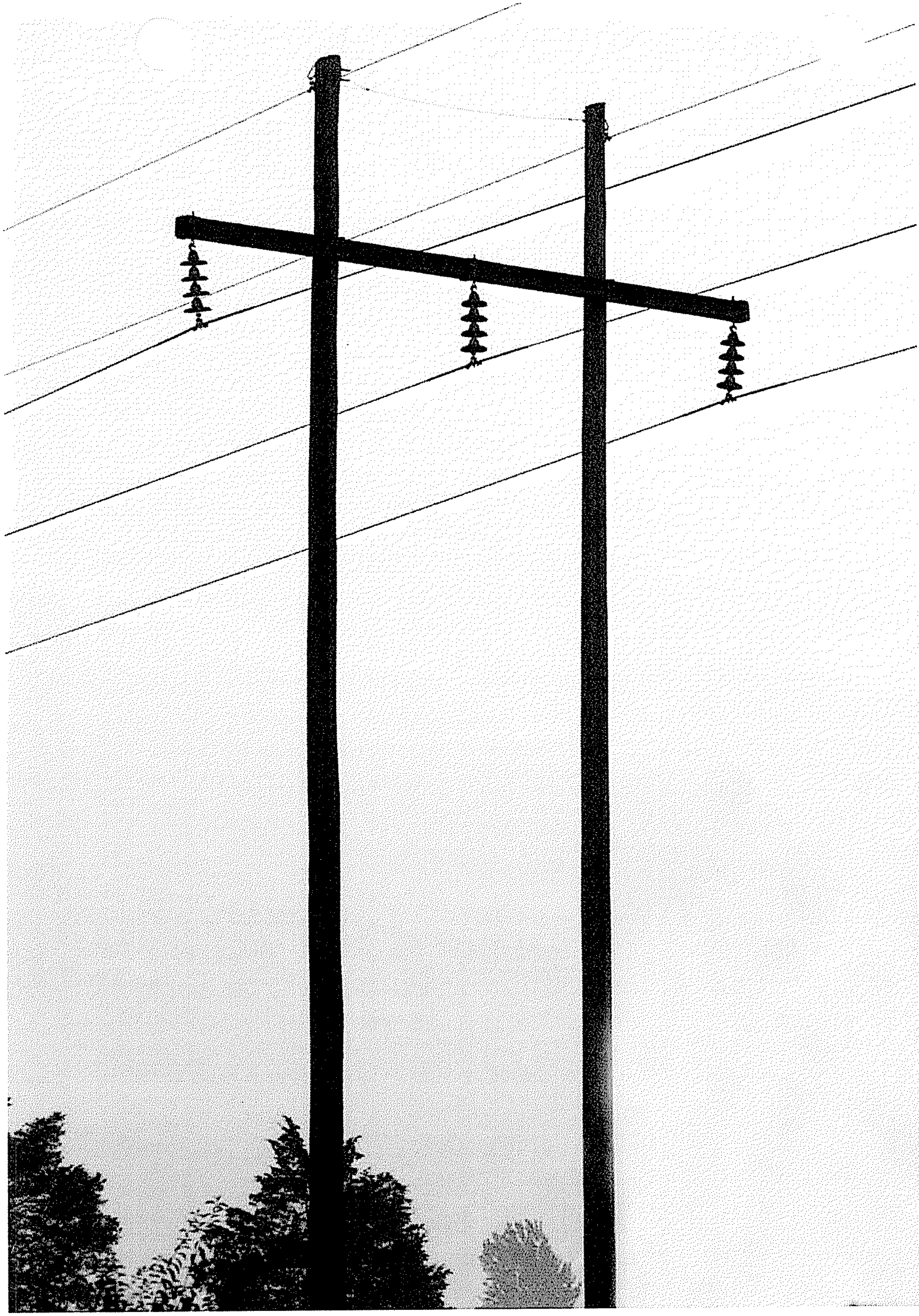
Smith Community Advisory Group

Comprised of nearly 20 Trapp and Clark County citizens, the Smith Community Advisory Group assists EKPC in communicating to the Trapp community about J.K. Smith Station's Unit #1 construction and permitting progress.

In 2005, the group invited a variety of government representatives and EKPC officials to discuss such topics as transportation issues, air quality and future construction plans for the plant.

Unit Generation Figures

In 2005, EKPC posted generation of 11.1 million net megawatthours. Dale Station generated 1.2 million net MWh (an all-time record for the power plant). Cooper Station generated 2.0 million net MWh (also an all-time record), while Spurlock Station produced almost 7.4 million net MWh and Smith Station generated 432,291 net MWh. EKPC's three landfill gas plants combined for a total generation of 62,098 net MWh in 2005.



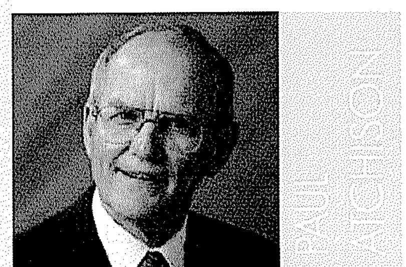
Warren Transmission Facilities Approved

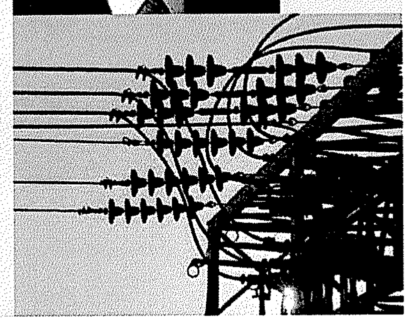
Seven open houses were conducted during 2005 with potentially affected property owners on the Warren transmission project, and more than 1,500 information packets were mailed to local citizens and officials across the affected areas.

Following the PSC approval of the Warren RECC transmission project in October, EKPC is proceeding with plans to construct nearly 97 miles of 161-kilovolt transmission lines from northern Barren County to Bowling Green and then northwest to Big Rivers Electric Corp.'s D.B. Wilson Generating Station in Ohio County. A sophisticated computer modeling system developed by the Electric Power Research Institute (EPRI) was used to develop the proposed transmission centerline.

Nearly 50 miles of the total length will be rebuilt lines or will parallel existing power lines. Construction began in the spring of 2006 and is scheduled for completion by December 2007.

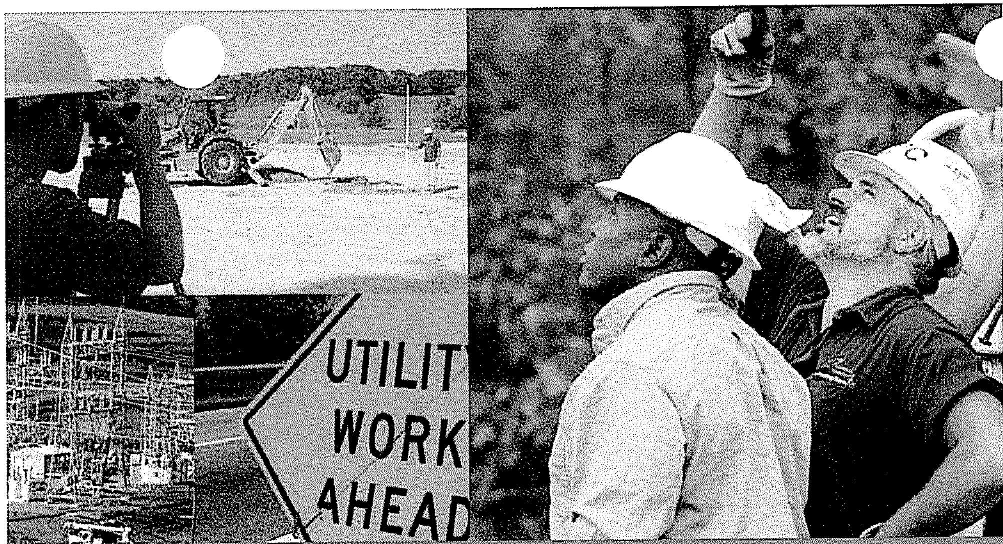
Warren RECC will join EKPC as its 17th member-owner cooperative in 2008.





Power Delivery

Responsible for the transmission system from the generating plant substation through the distribution substation. This includes transmission planning, dispatch, engineering, construction, operations and maintenance.



System Transmission Construction Continues at Rapid Pace

During 2005, construction crews built 25 miles of new transmission lines. Throughout the year, crews also completed 42 miles of line re-conductoring.

EKPC Refiles Cranston-Rowan Application

In the August order rejecting EKPC's proposed Cranston transmission line, the PSC stated that EKPC should have considered alternate routes along existing lines. EKPC's proposed line crossed 4.8 miles of the Daniel Boone National Forest.

EKPC maintained that the Cranston line, which would be nearly 7 miles in total length, was the best option to balance impact upon the community, environment and ratepayers. In the re-application for approval of the Cranston line, EKPC argued that delays to the project increased the possibility of cascading blackouts in northeastern Kentucky, increased costs for Kentucky ratepayers and increased the impact upon private local property owners.

After three years of extensive study, the Forest Service found that EKPC's proposed line was the best alternative to cross the forest and that it had no significant impact.

Emission Violations Alleged

In early 2006, EKPC received a Notice of Violation (NOV) from the Environmental Protection Agency (EPA) alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units #1 and #2. At issue is EPA's allegation that EKPC incorrectly reported the turbine nameplate ratings, thus placing the Units under the Acid Rain Program. Also, EKPC received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's cover the years 2000 through 2004; the impact is reflected in the enclosed financial statements.

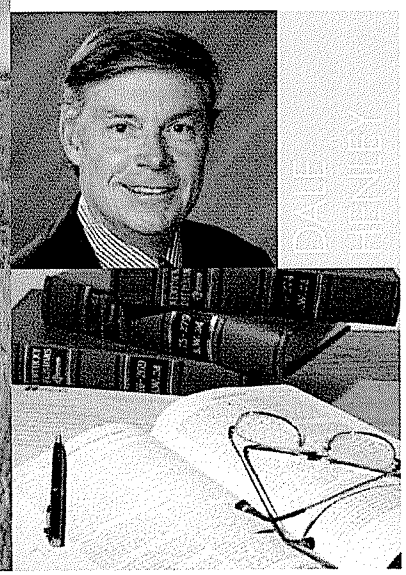
Construction Completed on Landfill Gas Plant

EKPC completed construction of its fourth methane gas-to-electric renewable energy plant at the Pearl Hollow Landfill in eastern Hardin County. The plant produces electric power from decaying trash, joining EKPC's three existing landfill gas-to-electric plants (in Greenup, Laurel and Boone counties).

The plant provides clean renewable energy for member systems to supply electricity to more than 2,000 Kentucky homes. EKPC was the first utility in Kentucky to open renewable energy plants.

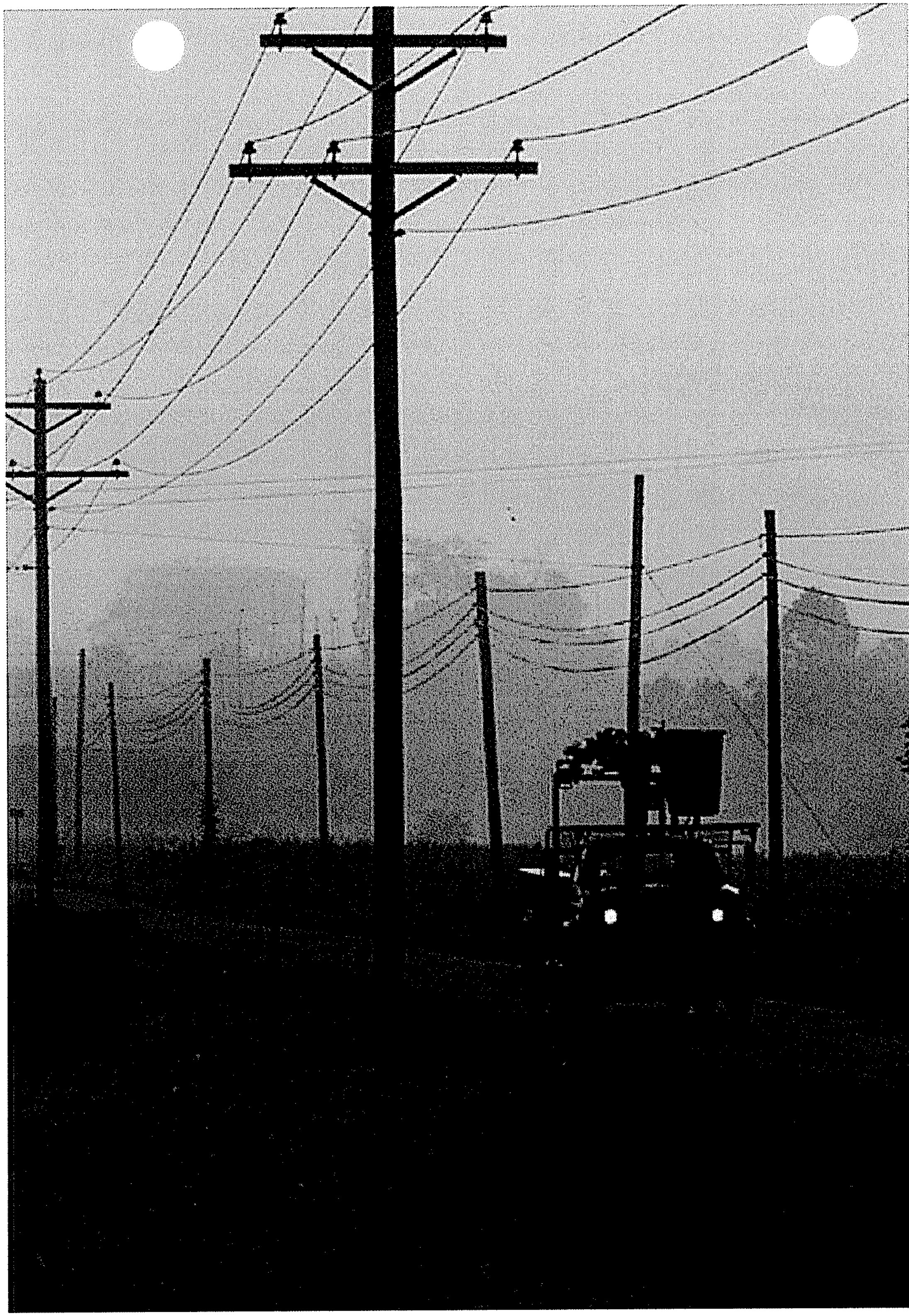
In December, a fifth engine was added to the Laurel Ridge Landfill Gas-to-Electric Plant. The engine increased the plant's total net megawatt capacity from 3.2 MW to 4.0 MW.

The EKPC Board in May approved a budget for the development of a new landfill gas-to-electric facility in Pendleton County, near Butler, Ky.



Legal

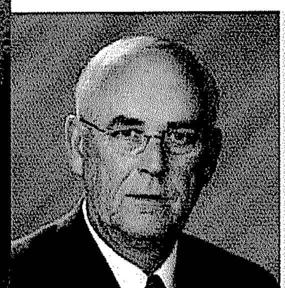
Provides corporate-wide legal guidance and counsel to ensure maximum protection of the Cooperative's legal rights and further ensures that operations are within the limits prescribed by law.



EnviroWatts Program Continues to Grow

The second largest purchaser of renewable energy produced by the landfill gas plants, the Sisters of Charity, agreed in 2005 to buy 257 blocks of EnviroWatts power per month for their Nazareth campus from Salt River Electric Cooperative.

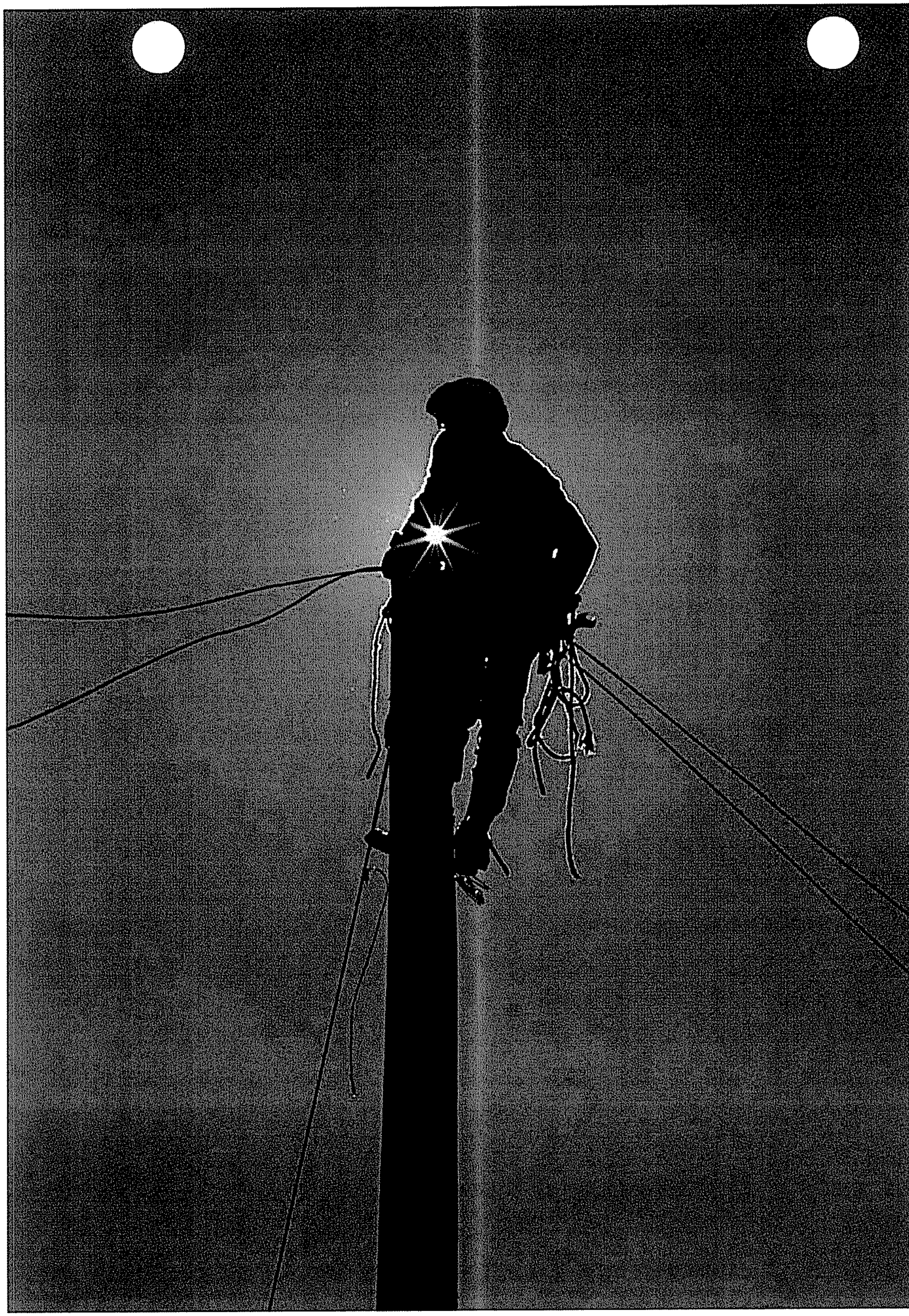
EKPC is currently one of the largest wholesale suppliers of renewable energy in the southeastern United States.



DOUG OLIVER

Human Resources and Support Services

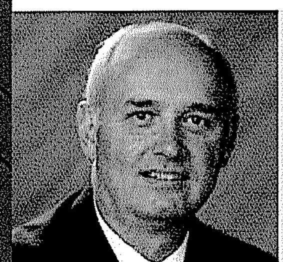
Responsible for human resources, administrative services, records management, travel and meetings, headquarters facilities, information technology and telecommunications.



Co-op Connections Card Program

Participating EKPC cooperatives were the first in the nation to offer the Co-op Connections Card, which provides retail members discounts at participating local and national businesses.

The card reinforced Touchstone Energy co-ops' longstanding commitment to community and provided members another tool to demonstrate the value of participation in the Touchstone Energy brand nationwide. More than 5 million Co-op Connections Cards have been printed.



GARY CRAWFORD

Member Services

Responsible for providing value added support to the member systems in the areas of marketing, communications, market research, environmental communications, Envision Energy Services, renewable energy and economic development.

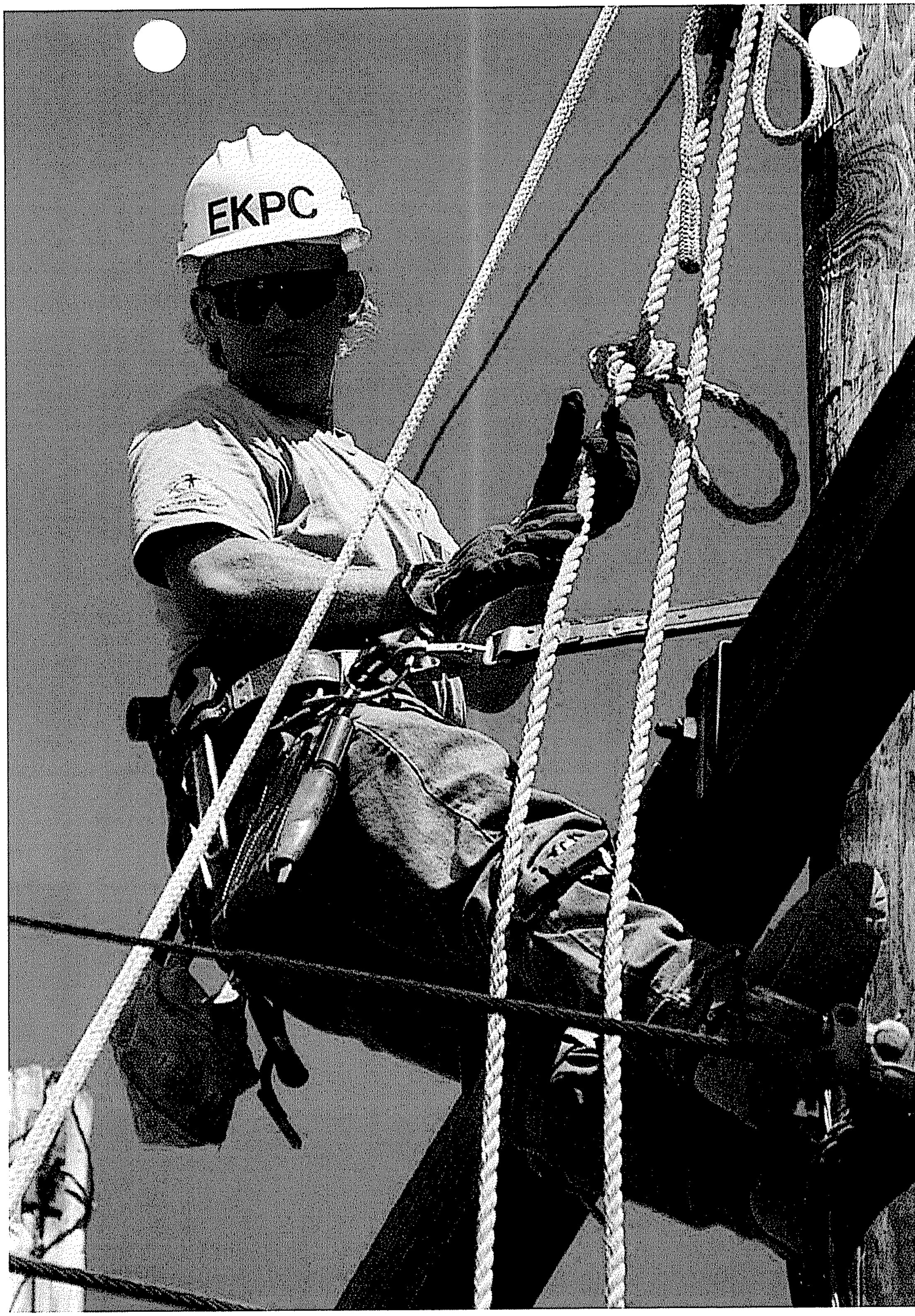
Partners Plus Enjoys Fruitful Year

With energy costs increasing throughout the global economy, EKPC's Partners Plus program and a variety of conservation programs saw a dramatic increase in interest during 2005, including Electric Thermal Storage Units, Touchstone Energy Home, Residential Energy Audits, Tune-Up and Button Up. In addition, EKPC's 16 members used PartnersPlus money for local scholarships, advertising and community support programs.

Touchstone Energy Programs Benefit Kentucky Youth

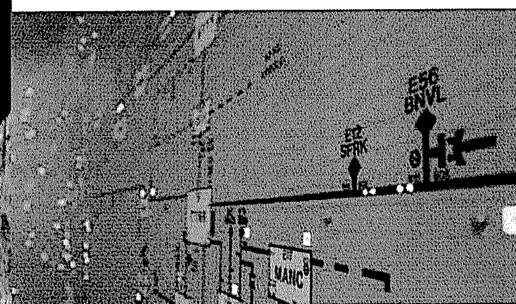
More than 500 motorcyclists from as far away as California made their way to Kentucky in August 2005 for the 6th annual Touchstone Energy Motorcycle Charity Poker Run, raising nearly $5,000 for the WHAS Crusade for Children.

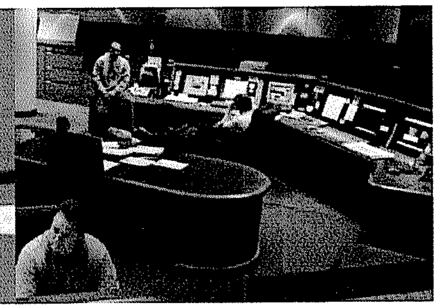
The Touchstone Energy All "A" Classic, which showcases student competitions in basketball, baseball and softball, the arts, academics, cheerleading and ROTC team drills, awarded $50,000 in scholarship funds to deserving high school seniors across the Commonwealth.

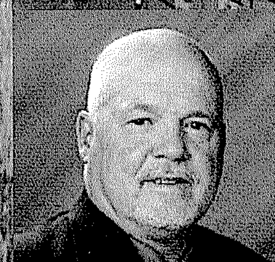


Cost Containment Program

In May, EKPC President and CEO Roy Palk reported to the Board of Directors that EKPC would begin an effort to determine what steps could be taken to contain costs. The initiative was inspired by a spring Board of Directors' retreat, at which potential methods were discussed to address such issues as rising fuel, generation, construction and purchased power prices.



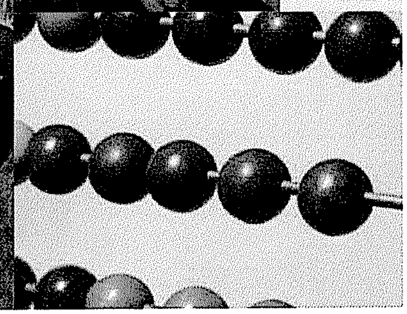




DAVE EAMES

Finance

Responsible for accounting, budgeting, treasury management, risk management, business insurance, materials management and pricing.

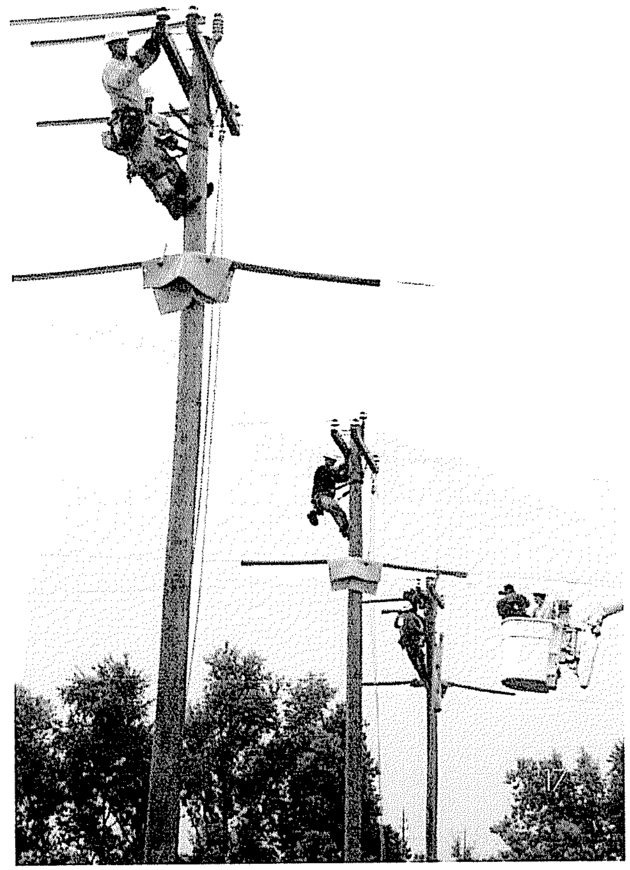


Public Service Commission Approves Credit Faci

The Kentucky Public Service Commission in August approved EKPC's proposed Credit Facility for $650 million. As a result of the order, EKPC proceeded with securing short-term financing with various banks through the Cooperative Finance Corp. for Spurlock Unit #4, Smith Unit #1 and combustion turbines 8-12, until longer-term financing is secured through the federal Rural Utilities Service.

EKPC Celebrates First-Ever Kentucky Lineman's Rodeo

EKPC hosted nearly 70 linemen from 16 cooperatives around the state in August 2005 as they competed in the first Kentucky Lineman's Rodeo. McKee, Ky.-based Jackson Energy claimed the overall winning team trophy at the event. Categories included cross-arm changeout, pole-climb and hurt-man rescue contests.



Co-ops Assist with Hurricane Aftermath

In early September 2005, EKPC and member systems volunteered men, pick-ups, service trucks and other equipment to restore power to Mississippi following devastating Gulf hurricanes. During their stint working long days on repair and clean-up, the Kentucky crews restored power to more than 6,000 customers in 18 days. After a second wave of devastation struck in the form of Hurricane Rita, EKPC responded by sending a five-man crew to a territory near Jennings, La., to restore power.

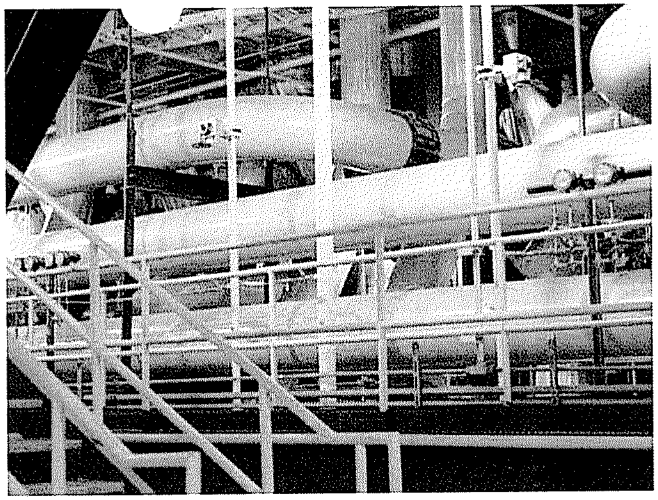
FINANCIAL HIGHLIGHTS

RESULTS OF OPERATIONS

Operating revenues for the twelve months ended December 31, 2005 increased approximately $125.6 million compared to the same period in 2004. This increase was due to several factors. Megawatt-hour (MWh) sales to members increased 4.7% as a result of growth in the EKPC system. Under Kentucky's Fuel Adjustment Clause (FAC), fuel cost above or below a stated amount per MWh is charged or credited to the member cooperatives for all energy sales. Because of rising fuel and purchased power costs, discussed below, EKPC's FAC recovery has increased $37.7 million. In early 2005, EKPC received approval from the Kentucky Public Service Commission to recover certain costs incurred in complying with the Federal Clean Air Act. This environmental surcharge was effective for service rendered on or after July 1, 2005, and resulted in increased revenue of $27.2 million.

In early 2006, EKPC received a Notice of Violation (NOV) from the Environmental Protection Agency (EPA) alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units #1 and #2. At issue is the EPA's allegation that EKPC incorrectly reported the turbine nameplate ratings, thus placing the Units under the Acid Rain Program. Also, EKPC received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's cover the years 2000 through 2004; the impact is reflected in the enclosed financial statements.

Production Operating Expense, which includes fuel, other production and purchased power, are categories that should be considered together for comparative purposes. On an hour-to-hour basis, EKPC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economic source. EKPC's coal costs have increased as a result of increased demand for low-sulfur coal and decreased supply of such coal. In the twelve months ended December 31, 2005 compared to the same period in 2004, coal costs have increased $50.6 million. The natural gas market has been extremely volatile in the twelve month period ended December 31, 2005, compared to the same period last year. Supply and demand issues, coupled with transmission constraints which increased EKPC's use of combustion turbines (CT's), caused fuel expense for the CT's to increase $38.3 million. With the addition of the Gilbert Unit in March 2005, EKPC's reliance on the purchased power market has decreased somewhat. However, for the twelve-month period ended December 31, 2005, EKPC incurred $109.6 million in purchased power expense. Depreciation expense increased $13.0 due primarily to the energization of the Gilbert Unit in Maysville, KY.



FINANCIAL HIGHLIGHTS

GENERATION OF POWER

East Kentucky has coal fired generating facilities at Dale Station in Clark County, Cooper Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units is supplemented during peak times by combustion turbines at the J.K. Smith Station in Clark County. East Kentucky's generating facilities produced 11.11 million megawatt-hours in 2005, compared with 9.05 in 2004.

East Kentucky's power stations burned 4.51 million tons of coal in 2005, compared with 3.70 million tons in 2004. The cost of coal burned during 2005, including handling, was $2.079 per million Btu, or $49.67 per ton. The cost of coal purchased during 2005 was $2.086 per million Btu or $49.95 per ton.

The combustion turbines at the J.K. Smith Station consumed 897,304 gallons of oil with a cost of $0.883 per gallon or $6.371 million Btu. The combustion turbines also consumed 5,369,844 MCF of natural gas with a cost of $9.89 per MCF.

FINANCIAL HIGHLIGHTS

INTEREST COSTS

Gross interest expense was $69.8 million. The prime rate increased from 5.25 percent to 7.25 percent during 2005. During the year, Federal Financing Bank (FFB) interest rates for long-term advances increased from 4.15 to 4.81 percent.

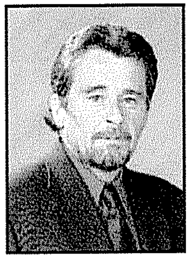
Of the total $1,392.3 million debt outstanding, current interest rates range from a low of 2 percent to a high of 10.66 percent for 2005. The average annual rate on all debt increased from 4.941 percent in 2004 to 5.111 percent in 2005.

Virtually all of East Kentucky's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $118.8 million of pollution control and solid waste disposal revenue floating/fixed rate bonds is being kept in the variable rate mode. This rate averaged 2.50 percent for 2005.

OPERATIONS, SERVICES & SUPPORT COMMITTEE

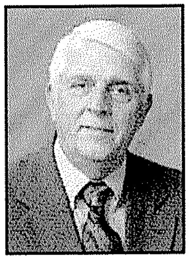
Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs, marketing & member support and other corporate functions.

BOARD MEMBERS



Grayson RECC

Donnie Crum

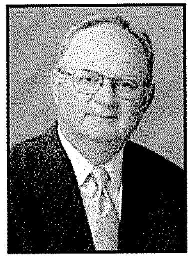


Cumberland Valley Electric

Elbert Hampton

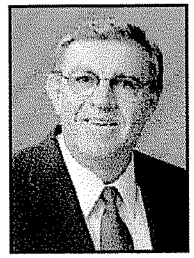
Farmers RECC

Neil Pendygraft



Clark Energy

William Shearer



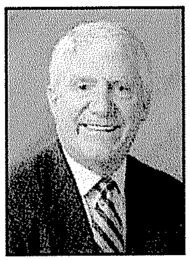
Fleming-Mason Energy
Vice Chairman

Lonnie Vice

SYSTEM MANAGERS

Shelby Energy

Dudley Bottom

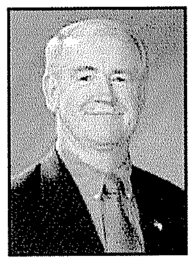


Blue Grass Energy

Dan Brewer

Licking Valley RECC

Kerry Howard

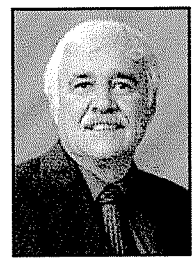


Owen Electric

Bob Marshall

Salt River Electric

Larry Hicks



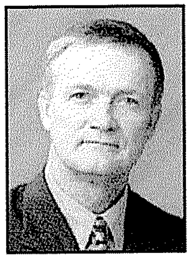
Big Sandy RECC

Bobby Sexton

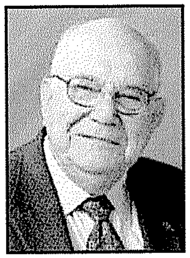
FUEL & POWER SUPPLY COMMITTEE

Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS

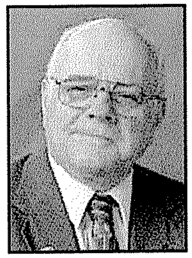


P. D. Depp
Taylor County RECC



E. A. Gilbert
Blue Grass Energy

Hope Kinman
Owen Electric

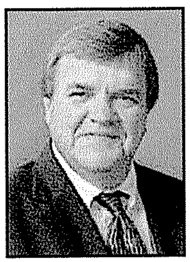


Jimmy Longmire
Salt River Electric

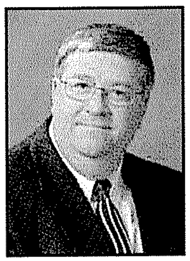
Wayne Stratton
Shelby Energy
Chairman

SYSTEM MANAGERS

Allen Anderson
South Kentucky Rural Electric

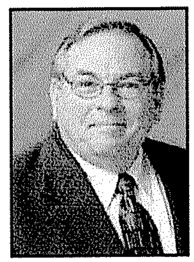


Jackie Browning
Farmers RECC



Jim Jacobus
Inter-County Energy

Mickey Miller
Nolin RECC

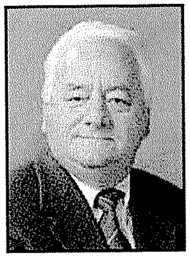


Don Schaefer
Jackson Energy

POWER DELIVERY COMMITTEE

Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

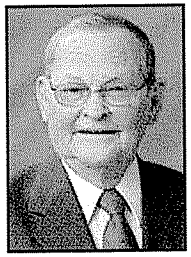
BOARD MEMBERS


Licking Valley RECC

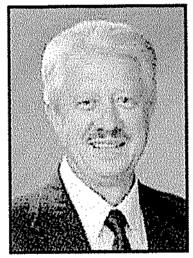
Mike Adams


Jackson Energy

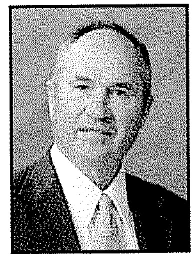
Fred Brown


Inter-County Energy

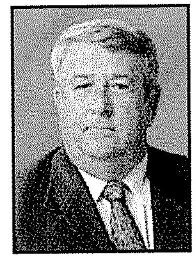
Danny Divine


Big Sandy RECC

Wade May

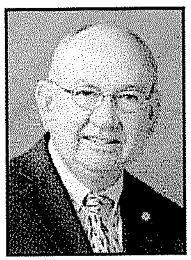

Nolin RECC
Secretary-Treasurer

A. L. Rosenberger


South Kentucky
Rural Electric

Rick Stephens

SYSTEM MANAGERS


Clark Energy

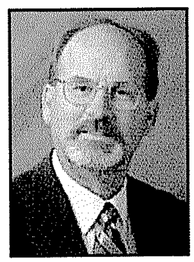
Paul Embs


Grayson RECC

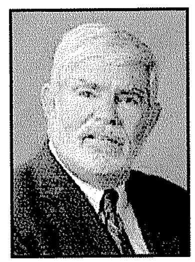
Carol Ann Fraley


Cumberland Valley Electric

Ted Hampton


Taylor County RECC

Barry Myers


Fleming-Mason Energy

Tony Overbey

AUDIT COMMITTEE

Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS

Clark Energy

William Shearer

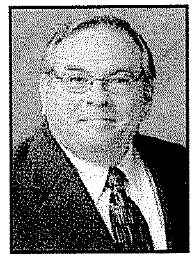
Shelby Energy
Chairman

Wayne Stratton

SYSTEM MANAGERS

Salt River Electric

Larry Hicks



Jackson Energy

Don Schaefer

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Crowe Chizek and Company LLC, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Crowe Chizek and Company LLC and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Crowe Chizek and Company LLC has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Roy M. Palk	David G. Eames
Roy M. Palk	David G. Eames
President and CEO	Vice President, Finance

REPORT OF INDEPENDENT AUDITORS

To the Audit Committee
East Kentucky Power Cooperative, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of East Kentucky Power Cooperative, Inc. and Subsidiary (the Cooperative) as of December 31, 2005 and 2004, and the related consolidated statements of revenue and expenses, changes in members' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of East Kentucky Power Cooperative, Inc. and Subsidiary as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2006 on our consideration of East Kentucky Power Cooperative, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Lexington, Kentucky
February 16, 2006, except for Note 6,
as to which the date is April 6, 2006

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

(Dollars in Thousands)

ASSETS	2005	2004
Electric plant, at original cost		
In-service	$ 2,039,674	$ 1,544,046
Construction in progress	152,585	481,268
	2,192,259	2,025,314
Less accumulated depreciation	774,996	726,858
Electric plant, net	1,417,263	1,298,456
Long-term accounts receivable	9,002	9,801
Investment securities		
Available for sale	42,581	39,703
Held to maturity	8,237	22,548
Current assets		
Cash and cash equivalents	43,863	60,110
Accounts receivable	77,663	56,507
Fuel	39,236	36,512
Materials and supplies	33,578	27,372
Emission allowances	4,087	199
Other	1,769	1,506
Total current assets	200,196	182,206
Deferred charges	4,751	919
Other	5,864	4,528
Total assets	$ 1,687,894	$ 1,558,161

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004
(Dollars in Thousands)

LIABILITIES AND MEMBERS' EQUITIES		
Members' equities	$ 96,108	$ 142,050
Long-term debt, excluding current portion	1,339,263	1,223,164
Current liabilities		
Current portion of long-term debt	53,085	44,743
Accounts payable	75,855	74,991
Accrued expenses	20,101	16,121
Total current liabilities	149,041	135,855
Accrued postretirement benefit cost	46,604	44,632
Other	56,878	12,460
Total liabilities and members' equities	$ 1,687,894	$ 1,558,161

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Operating revenue	$ 631,297	$ 505,681
Operating expenses		
Fuel	263,434	173,506
Other	103,632	88,324
Purchased power	109,571	134,795
Transmission and distribution	21,029	25,598
Depreciation	52,038	38,994
General and administrative	38,642	36,520
	588,346	497,737
Operating margins	42,951	7,944
Interest expense	69,844	54,490
Net operating deficit	(26,893)	(46,546)
Nonoperating margins		
Interest income	5,898	2,524
Allowance for interest on borrowed funds used during construction	6,226	16,080
Assessments	(32,555)	-
Miscellaneous	742	420
	(19,689)	19,024
Capital credits and patronage capital allocations	575	255
Net deficit	$ (46,007)	$ (27,267)

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income	Total Members' Equities
Balances, January 1, 2004	$ 2	$ 165,660	$ 3,035	$ (1,162)	$ 167,535
Comprehensive loss					
Net deficit	-	(27,267)	-	-	(27,267)
Unrealized gains on investments available for sale	-	-	-	1,782	1,782
Total comprehensive loss					(25,485)
Balances, December 31, 2004	2	138,393	3,035	620	142,050
Comprehensive loss					
Net deficit	-	(46,007)	-	-	(46,007)
Unrealized gains on investments available for sale	-	-	-	65	65
Total comprehensive loss					(45,942)
Balances, December 31, 2005	$ 2	$ 92,386	$ 3,035	$ 685	$ 96,108

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Cash flows from operating activities		
Net deficit	$ (46,007)	$ (27,267)
Adjustments to reconcile net deficit to net cash from operating activities		
Depreciation	52,038	38,994
Amortization of loan costs	364	85
Changes in:		
Accounts receivable	(21,156)	(7,163)
Fuel	(21,158)	(28,669)
Materials and supplies	(6,206)	(570)
Emission allowances	(3,888)	(10,138)
Accounts payable, trade	42,630	71,454
Accrued expenses	3,980	11,027
Accrued postretirement benefit cost	1,972	1,602
Other	34,723	(10,226)
Net cash from operating activities	37,292	39,129
Cash flows from investing activities		
Additions to electric plant	(190,277)	(235,933)
Maturities and calls of securities available for sale	79,465	36,150
Purchases of securities available for sale	(82,278)	(36,123)
Maturities of securities held to maturity	14,311	-
Purchases of securities held to maturity	-	(7,145)

The accompanying notes are an integral part of these consolidated financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

Payments received on long-term accounts receivable	799	757
Net cash from investing activities	(177,980)	(242,294)
Cash flows from financing activities		
Proceeds from long-term debt	345,132	281,092
Principal payments on long-term debt	(220,691)	(60,598)
Advances on notes payable	-	176,509
Payment on notes payable	-	(176,509)
Net cash from financing activities	124,441	220,494
Net change in cash and cash equivalents	(16,247)	17,329
Cash and cash equivalents at beginning of year	60,110	42,781
Cash and cash equivalents at end of year	$ 43,863	$ 60,110

The accompanying notes are an integral part of these consolidated financial statements.

**EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 65,925	$ 42,717
Non-cash operating transaction		
Fuel included in accounts payable	$ 18,434	$ 14,167
Emission allowances included in accounts payable	-	10,678
Non-cash investing transaction		
Additions to electric plant included in accounts payable	$ 23,332	$ 20,829
Unrealized gains on securities available for sale	65	1,782
Non-cash financing transaction		
Application of notes payable to other liabilities	$ -	$ 6,000

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Cooperative is engaged in generating and transmitting electrical power primarily to its sixteen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (KPSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises.

Principles of Consolidation: The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Electric Plant: Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction. During 2005, the Cooperative began capitalizing certain power delivery expansion employees' salaries and overhead; these costs were previously expensed. Capitalized costs in 2005 were approximately $1,506,000. Capitalized costs in 2004 would have been approximately $1,121,000.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Provision for depreciation has been made on the basis of estimated useful lives at straight-line composite rates generally as follows:

Production plant	3.30%
Transmission plant	2.75% - 8.00%
General plant	2.00% - 20.00%

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Assets: Electric plant and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2005 or 2004.

Allowance for Interest on Borrowed Funds Used During Construction: In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000.

Investment Securities: Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity. Investment securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is not temporary.

Revenue and Fuel Costs: Revenue is recorded monthly based on meter readings made at month-end.

The state regulatory authority has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales.

In September 2004, the Cooperative applied to the KPSC for the recovery of certain costs incurred in compliance with the Federal Clean Air Act. This environmental surcharge was effective for service rendered on or after July 1, 2005, and is being billed on a percentage of revenue basis.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Cooperative's sales are primarily to its member cooperatives and amounted to approximately $620,509,000 and $501,169,000 for 2005 and 2004, respectively. Accounts receivable at December 31, 2005 and 2004 were primarily from billings to member cooperatives. At December 31, 2005 and 2004, individual account balances that exceeded 10 percent of total accounts receivable are as follows:

	2005	2004
Owen Electric Cooperative	$ 10,137,000	$ 8,224,000
South Kentucky RECC	-	5,928,000

Cash and Cash Equivalents: For purposes of the consolidated financial statements, the Cooperative considers temporary investments having a maturity of three months or less when purchased to be cash equivalents.

At December 31, 2005 and 2004, respectively, the Cooperative had $674,661 and $301,915 of cash on deposit at one bank, which is in excess of federally insured limits.

Fuel and Materials and Supplies: Inventories of fuels and materials and supplies are stated at the lower of average cost or market.

Emission Allowances: Title IV of the Clean Air Act Amendments of 1990 provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants. Allowances are stated at cost. Issuances of allowances are stated using a monthly weighted-average method of cost determination. Gains and losses are recorded upon the disposition of allowances.

Members' Equities: Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members. In addition, any available capital credits will also be allocated to members on a contribution-to-gross margins basis.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A provision in the Cooperative's bylaws prohibits the return of capital contributed by patrons unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 40 percent of total assets. In addition, provisions of certain loan agreements prohibit the retirement of capital until stipulated requirements as to liquid assets (cash and U.S. Government obligations) are met. Accordingly, at December 31, 2005, no patronage capital was available for refunds or retirement.

Comprehensive Income: Comprehensive income includes both net deficit and other comprehensive income. Other comprehensive income represents the change in unrealized gains and losses on securities available for sale.

Income Taxes: The Cooperative is exempt under section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85 percent of its gross income is derived from members but is responsible for income taxes on certain unrelated business income.

Reclassifications: Certain 2004 amounts have been reclassified in these consolidated financial statements to conform to the 2005 presentation. Such reclassifications had no effect on net deficit or members' equities as previously presented.

NOTE 2 - ELECTRIC PLANT

Electric plant in-service consisted of the following:

	2005	2004
	(in thousands)	
Production plant	$ 1,141,340	$ 1,080,525
Transmission plant	409,889	374,394
General plant	69,724	67,518
Completed construction, not classified	418,721	21,609
Electric plant in service	$ 2,039,674	$ 1,544,046

Depreciation expense was $52,038,000 and $38,994,000 for 2005 and 2004, respectively.

(Continued)

NOTE 3 - LONG-TERM ACCOUNTS RECEIVABLE

Long-term receivables include modifications to Spurlock Power Station in order to provide steam to a paper mill that recycles container board. The paper mill is reimbursing the Cooperative for the cost of the modifications through a monthly facilities charge over the 20-year life of the contract. Long-term receivables also include interest-bearing notes from joint ventures owned by the Cooperative and four of the Cooperative's member systems for the buyout of a propane company. The joint ventures of the member systems will make five years of interest-only (prime rate minus one-half of one percent, adjust annually) payments, with principal and interest payments beginning in 2005. The notes will be payable in full in 2015.

NOTE 4 - INVESTMENT SECURITIES

Amortized cost and estimated fair value of investment securities available for sale at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2005				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	37,374	-	(10)	37,364
Zero Coupon Bond	2,563	465	-	3,028
Other	1,935	230	-	2,165
	$ 41,896	$ 695	$ (10)	$ 42,581
2004				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	35,611	-	-	35,611
Zero Coupon Bond	2,387	601	-	2,988
Other	1,061	19	-	1,080
	$ 39,083	$ 620	$ -	$ 39,703

(Continued)

NOTE 4 - INVESTMENT SECURITIES (Continued)

Proceeds from maturities and calls of securities were $79,465,000 and $36,150,000 in 2005 and 2004, respectively. There were no realized gains or losses on those calls. Amortized cost and estimated fair value of investment securities held to maturity at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2005				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (1,624)	$ 6,031
6.5875% subordinated term certificate	470	113	-	583
0% subordinated term certificate	112	-	(28)	84
	$ 8,237	$ 113	$ (1,652)	$ 6,698
2004				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,656	$ -	$ (1,461)	$ 6,195
6.5875% subordinated term certificate	485	104	-	589
2.72% - 5.440% equity term certificate	14,290	505	-	14,795
0% subordinated term certificate	117	-	(32)	85
	$ 22,548	$ 609	$ (1,493)	$ 21,664

NOTE 4 - INVESTMENT SECURITIES (Continued)

Investment securities held to maturity with unrealized losses at December 31 not recognized in net deficit are as follows (in thousands):

	Unrealized Loss Less than 12 months		Unrealized Loss 12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2005				
3-5% capital term certificates	$ -	$ -	$ 6,031	$ (1,624)
0% subordinated term certificate	-	-	84	(28)
	$ -	$ -	$ 6,115	$ (1,652)
2004				
3-5% capital term certificates	$ -	$ -	$ 6,195	$ (1,461)
0% subordinated term certificate	-	-	85	(32)
	$ -	$ -	$ 6,280	$ (1,493)

The maturity dates on the above securities range from 2019 to 2080 and have no available trading market. However, it is management's intent to hold these securities until maturity, at which time management expects to recover full value.

The amortized cost and fair value of securities at December 31, 2005, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 4 - INVESTMENT SECURITIES (Continued)

	Amortized Cost	Fair Value
	(in thousands)	
Available for sale		
Due in one year or less	$ 38,272	$ 38,477
Due after one year through five years	2,563	3,028
Due after ten years	1,061	1,076
	$ 41,896	$ 42,581
Held to maturity		
Due after ten years	$ 8,237	$ 6,698
	$ 8,237	$ 6,698

(Continued)

NOTE 5 – NOTES PAYABLE

On March 22, 2006, the Cooperative received a line of credit with CFC totaling $10,000,000. The interest rate will not exceed the prevailing bank prime rate plus one percent per annum. This line of credit expires on September 1, 2006.

NOTE 6 – LONG-TERM DEBT

Long-term debt outstanding at December 31, 2005 and 2004 consisted of the following (in thousands):

	2005	2004
First mortgage notes:		
4.241% - 10.657%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2038	$ 1,133,867	$ 932,641
2%, 5%, and 5.125% payable quarterly to RUS in varying amounts through 2024	28,267	59,727
3.8%, payable quarterly to CFC in varying amounts through 2014	21,769	23,049
Fixed rate loan, 7.7%, payable semiannually in varying amounts to National Cooperative Services Corporation through 2012	9,600	10,600
Promissory notes:		
4.20% variable rate note payable to CFC in 2006	-	50,000
3.40% fixed rate note payable to CFC in 2006	-	7,145
4.20% variable rate note payable to CFC in 2023	-	50,000
6.80% fixed rate note payable to CFC in 2023	-	7,145
5.155% - 5.474% variable rate note payable to CFC in 2010	80,000	-

(Continued)

NOTE 6 – LONG-TERM DEBT (Continued)

		2005		2004
Pollution control bonds:				
Series 1984B, variable rate bonds, due October 15, 2014, 3.70% at December 31, 2005 and 220% at December 31, 2004	$	88,600	$	94,450
Series 1984J, variable rate bonds, due October 15, 2014, 2.95% at December 31, 2005 and 1.75% at December 31, 2004		21,145		23,750
Solid waste disposal revenue bonds, Series 1993B, variable rate bonds, due August 15, 2023, interest rate 2.85% at December 31, 2005 and 1.50% at December 31, 2004		9,100		9,400
		1,392,348		1267,907
Less current portion of long-term debt		53,085		44,743
	$	1,339,263	$	1,223,164

In September 2002, RUS approved a loan application in the amount of $223,500,000 for the design, purchase, and installation of NOx reduction equipment and electrostatic precipitators, including plant modifications and related expenditures on Spurlock Power Station Units No. 1 and 2. Advances on these loans are subject to certain conditions outlined by RUS, and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2005, $21,700,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $433,863,000 for the construction of the Gilbert Unit at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2005, $74,863,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $27,645,000 for the construction of five landfill gas to energy generating units including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2005, $14,453,000 of these amounts remained to be advanced.

(Continued)

NOTE 6 – LONG-TERM DEBT (Continued)

In May 2005, RUS approved a loan application in the amount of $55,240,000 for the construction of two additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2005, this loan has not been cleared by RUS for advance of loan funds.

In August 2005, RUS approved a loan application in the amount of $64,240,000 for the construction of various transmission projects. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2005, this loan has not been cleared by RUS for advance of loan funds.

In September 2005, the Cooperative entered into an unsecured credit facility syndicate with the co-arrangers of CFC and the Bank of Tokyo-Mitsubishi. This loan was approved for a total of $650,000,000 for general operating expenses and capital construction projects. As of December 31, 2005, $570,000,000 of this amount remained to be advanced.

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5 percent per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act. As of December 31, 2005, the Cooperative's cushion of credit account balance was $26,375,000.

The interest rate on the Series 1984B Pollution Control Bonds is subject to change weekly and the interest rate on the Series 1984J Pollution Control Bonds and the Series 1993B Solid Waste Disposal Revenue Bonds are subject to change semiannually. The interest rate adjustment period on any series of the above-mentioned variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis or to a fixed-rate basis, at the option of the Cooperative.

Long-term pollution control and solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds. Debt service reserve requirements are as follows: Series 1984B - $12,717,000; Series 1984J - $5,368,500; and Series 1993B - $1,062,000. In addition, mandatory sinking fund payments are required for each series as follows: Series 1984B – payments range from $6,500,000 in 2006 to $13,150,000 in 2013; Series 1984J – payments range from $2,885,000 in 2006 to $4,325,000 in 2010; and Series 1993B – payments range from $300,000 in 2006 to $700,000 in 2023. Debt service reserve and construction funds are held by trustees and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in investment securities available for sale and have a fair value of approximately $19,700,000 at December 31, 2005.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

Estimated maturities of long-term debt for the five years subsequent to December 31, 2005 are as follows: 2006 - $53,085,000; 2007 - $56,412,000; 2008 - $59,084,000; 2009 - $62,140,000; 2010 - $145,437,000; and thereafter - $1,016,190,000.

Under the terms of the loan agreements with RUS, CFC and institutional investors, the Cooperative is required to maintain certain levels of members' equities, interest coverage, and debt service coverage. Because of the 2006 Environmental Protection Agency ("EPA") Notice of Violation discussed in detail in Note 8, the Cooperative is in technical default of the members' equities covenant related to the $80,000,000 in outstanding debt under the Credit Facility. Under the terms of the Credit Facility loan agreement, the required lenders had the right to immediately demand payment of the entire principal and interest balances owed them, or to terminate the loan commitment. On April 6, 2006, the required lenders waived their rights related to this technical default. On April 6, 2006, the covenants in the Credit Facility loan agreement were modified; the Cooperative is in compliance with the amended agreement. Effects of this Notice of Violation may cause the Cooperative to be in technical default of other loan covenants at December 31, 2006. If further defaults of these loan covenants occur in 2006, lenders may require the Cooperative to file a plan of corrective action. This plan of corrective action is currently being developed by the Cooperative.

Substantially all assets are pledged as collateral for first mortgage notes payable to the United States of America (RUS and FFB) and CFC.

NOTE 7 - RETIREMENT BENEFITS

Pension Plan: Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association's Retirement and Security Program, a multi-employer defined benefit plan. The Cooperative's required contributions were approximately $7,094,000 and $6,201,000 for 2005 and 2004, respectively. The Cooperative expects to contribute approximately $7,900,000 to the plan in 2006.

Retirement Savings Plan: The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Cooperative makes matching contributions to the account of each participant up to 2 percent of the participant's compensation. The Cooperative contributed approximately $743,000 and $719,000 to the plan in 2005 and 2004, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative. The Cooperative expects to contribute approximately $785,000 to the plan in 2006.

Supplemental Death Benefit Plan: The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan

(Continued)

NOTE 7 - RETIREMENT BENEFITS (Continued)

exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the consolidated financial statements.

Postretirement Medical Benefits: The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50 percent of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan. The plan is not funded.

The following table sets forth the plan's status reconciled with the amount shown in the Cooperative's balance sheets at December 31, 2005 and 2004 (dollars in thousands):

	2005	2004
Change in plan assets:		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	611	548
Plan participants' contribution	610	546
Benefits paid	(1,221)	(1,094)
Actual return on plan assets	-	-
Fair value of plan assets at end of year	-	-

(Continued)

NOTE 7 – RETIREMENT BENEFITS (Continued)

	2005	2004
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 34,258	$ 34,799
Service cost-benefits attributed to service during the period	1,166	1,039
Interest cost on accumulated postretirement benefit obligation	1,931	1,798
Benefits paid	(1,221)	(1,094)
Plan participants' contribution	610	546
Actuarial gain	(1,593)	(2,830)
Benefit obligation at end of year	35,151	34,258
Funded status	$ (35,151)	$ (34,258)
Unrecognized actuarial gain	(11,453)	(10,374)
Accrued benefit cost	$ (46,604)	$ (44,632)
Components of net periodic postretirement benefit cost (dollars in thousands):		
Service cost-benefits attributed to service during the period	$ 1,166	$ 1,039
Interest cost on accumulated postretirement benefit obligation	1,931	1,798
Amortization of unrecognized actuarial gain	(514)	(687)
Net periodic benefit cost	$ 2,583	$ 2,150

(Continued)

NOTE 7 - RETIREMENT BENEFITS (Continued)

The discount rate used in determining the accumulated postretirement benefit obligation for 2005 and 2004 was 6.00% and 5.75%, respectively. The Cooperative expects to contribute approximately $723,000 to the plan in 2006.

The following expected benefit payments from the plan, which reflect anticipated future service, are:

2006	$ 723
2007	828
2008	973
2009	1,081
2010	1,210
2011 - 2015	8,310
Total	$ 13,125

For measurement purposes, a 12.0 percent annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2005. The rate is assumed to decline to 5 percent after seven years. The health care cost trend rate assumption has a significant effect on the amounts reported.

	2005	2004
Effect on total of service cost and interest cost components (dollars in thousands)		
1-percentage-point increase	$ 705	$ 621
1-percentage-point decrease	(514)	(479)
Effect on postretirement benefit obligation (dollars in thousands)		
1-percentage-point increase	$ 6,986	$ 6,716
1-percentage-point decrease	(5,476)	(5,258)

(Continued)

NOTE 7 - RETIREMENT BENEFITS (Continued)

The Cooperative offers prescription drug benefits to its postretirement health care plan, and has implemented FASB Staff Position (FSP) 106-1 as of December 31, 2005. At the adoption date, the accumulated postretirement benefit obligation is estimated to decrease $1,900,000 and the aggregated service and interest costs are estimated to decrease $180,000 due to the prescription drug subsidy.

NOTE 8 - COMMITMENTS, EXPENDITURES AND CONTINGENCIES

The Cooperative has entered into long-term power purchase agreements having minimum payment obligations for the five years subsequent to December 31, 2005 as follows (dollars in thousands):

2006	$ 4,553
2007	4,553
2008	5,314
2009	7,595
2010	7,595

The Cooperative is committed to purchase coal for its generating plants under long-term contracts having minimum purchase obligations as follows (dollars in thousands):

2006	$ 190,015
2007	173,220
2008	57,708
2009	23,406
2010	11,770

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price re-openers.

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1,000,000 for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be

(Continued)

NOTE 8 - COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the consolidated financial statements.

On January 28, 2004, the federal Environmental Protection Agency (EPA) sued the Cooperative alleging that physical or operating changes to three coal-fired generators resulted in simultaneous violations of the Prevention of Significant Deterioration provision of the Clean Air Act; the New Source Performance Standards of the Clean Air Act; and the State Implementation Plan for Kentucky, as approved by EPA. The lawsuit seeks injunctive relief, and civil penalties of up to $25,000 a day before January 31, 1997, and $27,500 a day since then.

As a result of this lawsuit, the Cooperative has done the following:

On January 17, 2006, EKPC filed four motions with the court asking that most, if not all of the claims, be dismissed. These motions for summary judgment involved,

(a) statute of limitation issues;
(b) federal enforceability of the Spurlock No. 2 operating permit;
(c) applicability of the routine maintenance exclusion; and
(d) calculation of emissions under PSD based on post-change actual annual emission where the baseline emission calculations are based on actual historic annual emissions prior to project work, and not based on hypothetical emissions.

The court has previously set this matter for trial in late May/early June 2006; but this schedule could change depending upon whether the court rules favorably upon all or some of these motions.

The Cooperative believes that when all the evidence is presented, the facts will bear out that the Cooperative complied with the requirements, and acted in good faith.

On January 17, 2006, the Cooperative received a Notice of Violation (NOV) from the EPA alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units 1 and 2. At issue is EPA's allegation that the Cooperative incorrectly reported the turbine, rather than the generator, nameplate ratings, thus placing the Units under the Acid Rain Program. On February 10, 2006, the Cooperative received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's cover the years 2000 through 2004.

(Continued)

NOTE 8 - COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

Under a strict application of the Acid Rain Program, owners and operators of a unit that is determined to have excess emissions of SO2 are subject to non-discretionary penalties, must surrender SO2 allowances to cover previous emissions, and also may be subject to discretionary penalties. There may also be penalties relating to NOx emissions requirements.

Because the Cooperative did not have emissions monitoring equipment in place on Dale Units 1 and 2, on March 1, 2006, the Cooperative petitioned EPA to allow the calculation of the emissions on coal burn fuel data versus missing data procedures. Depending on the resolution of this petition, an additional $68,000,000 in non-discretionary penalties could be assessed. At this time, it is not possible to predict the likelihood of success or whether these non-discretionary penalties could be waived or reduced by the agency or a court. The Cooperative is also required to surrender SO2 allowances to cover the emissions for 2000 through 2004. Additional expense to cover such emissions, assuming current market prices, could be $25,000,000. Civil penalties similar to those outlined above from the EPA lawsuit may also apply.

In September 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at Spurlock Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $473 million.

In November 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at the J.K. Smith Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $534 million.

In December 2004, the Board approved the construction of five gas-fired combustion turbines to be located at the Cooperative's J.K. Smith Power Station. The combustion turbines are expected to cost approximately $255 million. These combustion turbines are scheduled to become operational in 2007 and 2008.

In September 2005, the Board approved construction of a new limestone scrubber for Spurlock Unit 2, with a wet precipitator, at a cost of approximately $159 million.

In January 2006, the Board approved the construction of a new limestone scrubber for Spurlock Unit 1, with a wet precipitator, at a cost of approximately $145 million.

The construction projects mentioned above are subject to KPSC approval.

(Continued)

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Accounts Receivable and Accounts Payable: The fair values of accounts receivable and payable are based on carrying value due to the short-term nature of the instruments.

Investment Securities: The fair values of investment securities are estimated based on quoted market prices for the same or similar investments.

Long-Term Accounts Receivable: The fair values of long-term accounts receivable are estimated based on quoted interest rates for similar maturities.

Notes Payable: The carrying amount approximates fair value because of the variable rate and payable on demand terms of the financial instrument.

Long-Term Debt: The fair value of the Cooperative's long-term debt that is practicable to estimate, is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Cooperative for debt of the same remaining maturities, including the appropriate redemption premium, if any. The estimated fair values of the Cooperative's financial instruments are as follows (in thousands):

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 43,863	$ 43,863	$ 60,110	$ 60,110
Accounts receivable	77,663	77,663	56,507	56,507
Investment securities				
Available for sale	42,581	42,581	39,703	39,703
Held to maturity	8,237	6,698	22,548	21,664
Long-term accounts receivable	9,002	10,067	9,801	9,200
Financial liabilities				
Long-term debt	$ 1,392,348	$ 1,418,017	$ 1,267,907	$ 1,280,676
Accounts payable	75,855	75,855	74,991	74,991

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