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September 10, 2010

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SEP 10 2010

**PUBLIC SERVICE
COMMISSION**

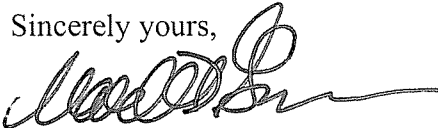
Via Hand-Delivery

Mr. Jeffrey Derouen
Executive Director
Public Service Commission
P. O. Box 615
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2010-00238
In the Matter of: An Investigation of East Kentucky Power
Cooperative, Inc.'s Need for the Smith 1 Generating Facility

Dear Mr. Derouen:

Enclosed please find herewith an original and ten (10) copies of East Kentucky Power Cooperative, Inc.'s Response to the Commission's September 7, 2010 Order to be filed in the above-referenced matter. Please return a file stamped copy to me.

Sincerely yours,


Mark David Goss

Enclosures

Copies to: Counsel of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 10 2010

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN INVESTIGATION OF EAST KENTUCKY)
POWER COOPERATIVE, INC.'S NEED FOR)
THE SMITH 1 GENERATING FACILITY) CASE NO. 2010-00238

**EAST KENTUCKY POWER COOPERATIVE, INC.'S RESPONSE
TO THE COMMISSION'S SEPTEMBER 7, 2010 ORDER**

Comes now East Kentucky Power Cooperative, Inc. ("EKPC"), by and through counsel, and provides its Response to the Order of the Kentucky Public Service Commission (the "Commission") entered on September 7, 2010, as follows:

(1) In their Joint Motion to place this case in abeyance filed on August 23, 2010, the parties attempted to advise the Commission:

(a) that they were aware of the importance of the decision regarding construction of Smith I CFB upon EKPC as a going-concern, EKPC's Member Systems and those Systems' Member-Ratepayers, as well as Kentucky's economy and environment;

(b) that it was imperative that a thorough discussion and vetting of all issues related to the construction of Smith I CFB be immediately undertaken and concluded by the parties expeditiously;

(c) that the best way for the parties to address these complicated issues was to sit down collectively and discuss them in detail; however, to do that required additional time and a redirecting of resources, at least temporarily, from this case to those discussions; and,

(d) that such discussions could lead to a narrowing of the many issues raised by the Commission at the time this investigation was issued, and could ultimately lead to an agreement of the parties as to all issues touching the construction and placement into service of Smith I CFB;

(2) It is apparent from the Commission's September 7, 2010 Order that the parties did a poor job of explaining to the Commission what they hoped to accomplish in these discussions and the necessity for the extra time within which to do it. The Commission's Order correctly points out that the issues identified at the outset of this investigation can be changed only by the Commission and not by agreement of the parties. The parties sincerely desire the Commission to know that they never intended, nor do they now intend, that the Commission's issues be altered, overlooked, or nullified by the discussions they wish to have with each other. Quite to the contrary, they wish to address head-on each and every issue identified by the Commission, and many more that were not identified, but which are inextricably linked to the construction and placement into service of Smith I CFB, and which must also be addressed by the parties at some time and in some fashion. By wishing to address these related issues, the parties do not intend to broaden the scope of this investigation, nor to usurp the Commission's authority and statutory obligations. Rather, discussion of these other issues will likely lead to a better and more comprehensive result for the Commission, the parties and their constituents.

(3) The Commission is asked to remember that in its Order initiating this investigation,¹ the "Retail Consumers" Complaint² and EKPC's Smith I CFB Financing Case³

¹ Case No. 2010-00238, Order dated June 22, 2010.

² Case No. 2009-00426.

³ Case No. 2009-00476.

were essentially consolidated into this case and all relevant issues within the umbrella of the Commission's jurisdiction and authority over "the regulation of rates and service of utilities" (KRS 278.040(2)) was to be addressed. Consistent with this consolidation, the Commission indicated that it intended to conduct "a rigorous and comprehensive investigation of the need for and financial implications of Smith I."⁴ Specifically identified as areas of inquiry were:⁵

- (a) EKPC's most recent load projections;
- (b) EKPC's potential for load reductions resulting from energy efficiency and demand-side management programs;
- (c) cost estimates for construction of Smith I CFB;
- (d) cost alternatives to Smith I CFB, including natural gas-fired generation and long-term power purchases;
- (e) the financial impacts of Smith I to EKPC, including the impact on its electric rates over the next 20 years; and,
- (f) any other issues within the scope of the Commission's jurisdiction which any party desired to raise.

Because this investigation was initiated partly as a result of the Retail Customers' original Complaint case, and the Commission has invited the exploration of other issues involving Smith I CFB consistent with its jurisdiction, the parties desire to explore and discuss (and hopefully resolve) as many outstanding issues as possible; subject, of course, to the "rigorous and comprehensive" investigation which the Commission initiated and has the clear authority to conclude on its terms.

⁴ Case No. 2010-00238, Order dated June 22, 2010, page 8.

⁵ Id.

It is quite possible that as a result of these discussions the parties could arrive at a global settlement of many, if not all, disputed issues surrounding the construction and placement into service of Smith I CFB, as well as other related but separate issues in dispute. Admittedly, some of these issues are within the purview of the Commission's jurisdiction, and some are not. However, it is respectfully suggested that the Commission afford the parties an adequate opportunity to at least investigate which disputes can be resolved and which cannot. Discussions of this magnitude are usually much more successful if all disputes can be aired and discussed collectively rather than in a piecemeal fashion. Should these discussions ultimately prove to be unsuccessful, the status quo can be reinstated and the Commission's investigation can proceed at whatever pace it determines to be appropriate.

(4) In ordering paragraph 2,⁶ the Commission directed EKPC to provide, within seven days, its “. . . 2010 load forecast, if completed, along with the other information specified by the June 22, 2010 Order, if available”. If any item is uncompleted or unavailable, EKPC must describe the status of such item and the anticipated date of its availability for filing in the case.

2010 LOAD FORECAST

Given the importance of the 2010 load forecast, there is a compelling need to thoroughly examine and evaluate the load forecast results. EKPC continues to see volatility in its load, which is clearly a result of what has been happening with the economy over the past 18 to 24 months. This situation makes it increasingly difficult for EKPC to develop an accurate and reliable forecast. EKPC continues to carefully examine and question the components that are included in the load forecast to get an accurate and reliable forecast with which to base the rest of this analysis. At the same time, the EKPC Board of Directors has increased its scrutiny of these

⁶ Case No. 2010-00238, September 7, 2010 Order, page 3.

matters and is requiring EKPC management to provide more detailed information and a higher quality work product to support its decision making. Because of the difficulty in developing an accurate and reliable forecast and the need to conclude further validation efforts, EKPC's 2010 load forecast is not yet completed. However, EKPC believes that it can be ready for filing with the Commission by November 15, 2010.

OTHER INFORMATION REQUESTED IN JUNE 22, 2010 ORDER⁷

In regard to the other items that the Commission has requested, fulfilling that request depends on having an accurate load forecast because that determines the mix of resources, the way they will be utilized, and the volumes that are needed. EKPC's response to the request is also dependent upon having accurate cost information for each of the resources being examined. EKPC has observed double digit percentage movements downward in the cost of some hardware components.⁸ Consequently, EKPC is still reviewing and evaluating all the available cost information to assure accuracy. The options which the Commission ordered EKPC to evaluate are dependent upon this cost information, and the lack of certainty about the cost figures makes it quite difficult to evaluate each of the items directed by the Commission. EKPC must undertake further study to assure that it is providing accurate and meaningful responses to the Commission.

Because an accurate load forecast is not yet completed, and accurate cost information has not yet been determined, EKPC believes that the other information requested by the Commission in its June 22, 2010 Order can also be ready for filing with the Commission by November 15, 2010.

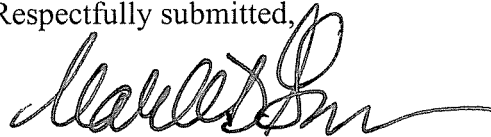
⁷ In its September 7, 2010 Order, the Commission directed that for any unavailable item EKPC should file a report detailing the status of each such item and the anticipated date that the item will be filed. Because all of the items requested are still unavailable for the same reasons, and in the interests of administrative economy, EKPC provides a statement as to status applicable to the items collectively rather than to them individually.

⁸ For example: combustion turbines and certain costs of Smith I CFB, even though already engineered and designed.

WHEREFORE, for the reasons stated hereinabove, EKPC respectfully notifies the Commission that it can be prepared to file both the load forecast and all other information requested by November 15, 2010.

This 10th day of September, 2010.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that the foregoing was mailed, first class postage prepaid, this 10th day of September 2010 to the following parties of record:

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