

December 8, 2010

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

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Dear Mr. Derouen:

This letter is in response to your letter dated November 30, 2010, which requested further clarification between East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental presentation to the Commission on October 25, 2010, and a portion of EKPC's testimony in Case No. 2010-00083 provided at the hearing on August 13, 2010.

Based upon the Clean Air Transport Rules ("CATR") as proposed, none of EKPC's coal-fired units, on a stand-alone basis, meet the proposed new caps for SO₂ and NO_x unless additional allowances can be acquired somehow under the new rules. EKPC, along with other utilities, has filed written comments to the EPA stating that CATR, if approved, should be applied on a system-wide basis and allow for at least intra-state trading if not interstate trading. The Cooper Unit 2 Air Quality Control System clearly helps EKPC, on a system-wide and plant basis, comply with the proposed emission requirements.

Your interpretation is correct in that the initial proposed CATR SO₂ allocations, if EKPC cannot supplement through trading or otherwise, could mean the likely closure of Dale Station in 2012 and the likely closure of Cooper 1 in 2014. This assumes that CATR remains in place with the current allocations for EKPC. Allowances allocated to units that are closed due to the SO₂ allocations should be eligible to be shifted to EKPC's other units. Please note that no CATR allowances have been proposed by EPA on Dale Units 1 and 2 at this time.

It is important to remember that CATR is only a proposed rule and that EPA has received a tremendous volume of comments that reflect the large numbers of erroneous assumptions that EPA seemed to make in determining initial and subsequent allowance allocations. Further, it is not clear whether EPA will allow limited regional trading, intra-state trading only, or no trading across utility systems or plants. Unfortunately, we will not know the answers to these questions until some time next year when the rule is scheduled to be finalized. Even then, it is expected that CATR will be challenged by states, regulated emissions sources and environmental groups and may be stayed pending these challenges. Further, EKPC expects EPA to issue the following new rules beginning

next year: (1) a section 112(d) Hazardous Air Pollution MACT rule for electric utilities to be proposed by March 2011; (2) potential rules to address pollution transport under revised NAAQS; (3) revisions to new source performance standards for coal and oil-fired utility electric generating units; and (4) final best available retrofit technology (BART) and regional haze program requirements to protect visibility.

We feel it is a sound strategy to invest in the best and latest pollution control equipment. The pollution control equipment that EKPC is installing under the NSR Consent Decree for Cooper 2 was negotiated with the goal of providing the company's units with the most compliance flexibility. EKPC invested and positioned itself ahead of the EPA programs by meeting tomorrow's standards today.

EKPC is working with Jim Wood to request a meeting with you in the event we need to provide additional information or clarification.

Very truly yours,



Anthony S. Campbell
President and Chief Executive Officer