

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR APPROVAL TO PREPAY)	
RURAL UTILITIES SERVICE ("RUS") SECURED DEBT)	CASE NO.
AND REFINANCE WITH NATIONAL COOPERATIVE)	2010-00395
SERVICE CORPORATION ("NCSC") UNSECURED)	
DEBT IN AN AMOUNT UP TO \$25,000,000)	

O R D E R

On October 8, 2010, East Kentucky Power Cooperative, Inc. ("EKPC") tendered an application for authority to execute notes to the National Cooperative Service Corporation ("NCSC") in an amount up to \$25,000,000. NCSC is a member-owned cooperative that provides financing to electric cooperatives and is an affiliate of the National Rural Utilities Cooperative Finance Corporation ("CFC"). By letter dated October 14, 2010, the Commission notified EKPC that all filing requirements were satisfied and the application was considered filed as of October 8, 2010.

EKPC intends to use the proceeds from the NCSC loan to refinance and discharge part of its indebtedness to the Rural Utilities Service ("RUS"). Due to lower interest rates offered by NCSC as of August 25, 2010, EKPC's application projects a lifetime cash flow savings of approximately \$1.4 million over the life of the loan.

On August 31, 2010, EKPC's outstanding balance of RUS debt was \$33,532,404, with interest rates varying from 2.0 to 5.125 percent.¹ EKPC also has

¹ Application, Exhibit 7.

outstanding long-term debt of \$351,891,272 with CFC, \$2,182,348,894 with the Federal Financing Bank, and \$73,125,000 in pollution and solid waste disposal bonds through the Kentucky counties of Clark, Mason and Pulaski.² EKPC currently has one outstanding NCSC note, through CFC, in the amount of \$4,500,000.

EKPC proposes to refinance up to \$25,000,000 of its total outstanding RUS debt under the NCSC program. EKPC proposes to execute notes, in conjunction with borrowing from NCSC, for differing maturity periods that are approximately equal to the maturity periods of the debt being refinanced. The notes will have different fixed rates of interest for each year until maturity. NCSC initially estimated an average fixed interest rate of 3.7 percent with an amortization period of approximately 15 years, roughly equivalent to the remaining maturity periods of the RUS debt being refinanced. Based on that initial interest rate, EKPC's application included a cash flow analysis indicating that refinancing \$25,000,000 would result in a savings of \$1,436,364 over the life of the loan.³ The net present value of the cash flow savings was provided as part of the analysis prepared by NCSC for EKPC. However, in response to a data request, EKPC stated that NCSC's average interest rate had now increased to 4.2 percent and the projected savings from the refinancing had fallen to \$1,104,881.⁴

The Commission has reviewed the proposed refinancing and finds EKPC's proposal reasonable. EKPC has determined that it can refinance a portion of its RUS

² Id.

³ Application, Exhibit 2.

⁴ EKPC response to Commission Staff's November 2, 2010 data request, Item 2.d.

five percent fixed rate debt at a lower effective interest rate and experience cash flow savings over the period of the loan. The Commission commends EKPC for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member cooperatives.

The final amounts of the RUS payoff and the new NCSC loan will not be known until the refinancing transaction is finalized. Therefore, EKPC should provide the Commission with the exact amount of the new loan within 10 days of finalizing the transaction. In addition, EKPC should provide an updated version of Exhibit 2 of its application reflecting the cash flow and the net present value analyses of the cash flow for the new NCSC loan.

After considering the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The loan from NCSC is for lawful objects within the corporate purposes of EKPC; is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public; will not impair its ability to perform that service; is reasonable, necessary, and appropriate for such purposes; and should be approved.

2. EKPC should execute the NCSC loan documents as described in its application and authorized herein.

3. Within 10 days of finalizing the refinancing transaction, EKPC should notify the Commission in writing of the exact amount of the new NCSC loan. EKPC should include with the notice an updated version of Exhibit 2 from its application reflecting the savings based on the actual amount and actual interest rates of the new NCSC loan.

4. Within 10 days of execution of the new NCSC loan documents, EKPC should file with the Commission three copies of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in EKPC's application.

6. The terms and conditions of the new NCSC loan should be consistent with the NCSC refinancing proposal as described in EKPC's application.

IT IS THEREFORE ORDERED that:

1. EKPC is authorized to borrow up to \$25,000,000, but no more than the total RUS payoff, from NCSC. The loan maturity dates and interest rates shall be in accordance with the NCSC refinancing proposal as described in EKPC's application.

2. EKPC shall execute the NCSC loan documents as authorized herein.

3. EKPC shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission

ENTERED *M*
NOV 24 2010
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

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