

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR APPROVAL OF THE)	
AMENDMENT AND EXTENSION OR)	CASE NO.
REFINANCING OF AN UNSECURED REVOLVING)	2016-00116
CREDIT AGREEMENT IN AN AMOUNT UP TO)	
\$800,000,000 OF WHICH UP TO \$100,000,000)	
MAY BE IN THE FORM OF AN UNSECURED)	
RENEWABLE TERM LOAN AND \$200,000,000 OF)	
WHICH WILL BE IN THE FORM OF A FUTURE)	
INCREASE OPTION)	

ORDER

On March 9, 2016, East Kentucky Power Cooperative, Inc. ("EKPC") filed its application, pursuant to KRS 278.300 and 807 KAR 5:001, Section 18, for approval of the amendment and extension of an unsecured revolving credit agreement¹ ("Credit Facility") in an amount up to \$800 million,² of which \$100 million may be in the form of an unsecured, renewable term loan and \$200 million of which will be in the form of a future increase option.³

¹ The Commission approved the Credit Facility in Case No. 2011-00204, *Application of East Kentucky Power Cooperative, Inc. for Approval of an Unsecured Revolving Credit Agreement for a Term of up to Five Years and in an Amount up to \$500,000,000* (Ky. PSC July 19, 2011). The Credit Facility was amended and extended in Case No. 2013-00306, *East Kentucky Power Inc. Application for Approval of the Issuance of up to \$200,000,000 of Secured Private Placement Debt, for the Amendment and Extension of an Unsecured Revolving Credit Agreement in an Amount of up to \$500,000,000, and for the Use of Interest Rate Management Instruments* (Ky. PSC Sept. 27, 2013).

² The credit facility had \$300 million drawn down at the time of EKPC's application.

³ Application at 1.

PROPOSED INDEBTEDNESS

EKPC seeks to amend and extend its Credit Facility in order to maintain the favorable interest rate spread and fees. It proposes to extend the maturity date from the current maturity date of October 3, 2018, to a date five years from the new closing date, which will lock in those rates for an additional two and a half years. EKPC further requests authority to possibly increase the total commitment from \$500 million to \$800 million, of which up to \$100 million may be in the form of an unsecured renewable term loan.⁴ The term loan would be fully pre-payable and would be at a more favorable rate than the debt under the current revolving Credit Facility.⁵ In addition, EKPC states that adding a term loan portion to the Credit Facility could result in a smoother execution, possibly with fewer banks needed for the overall financing.⁶ EKPC also seeks to include an option to increase the facility by \$200 million at a future date, which is characterized as “accordion” feature by EKPC, and to have two one-year extension options and additional improvements in the terms, such as modified covenants.⁷ The two one-year extensions and accordion feature are not guaranteed and would have to be mutually agreed upon by the parties to the Credit Facility in order for the extensions and the accordion feature to be executed.⁸ In order to secure pricing for a five-year

⁴ *Id.* at 2.

⁵ *Id.*, Exhibit 1 at 1. Also see EKPC's response to Commission Staff's First Request for Information (“Staff's First Request”), Items 2.b. and 3.

⁶ Application, Exhibit 1 at 1.

⁷ *Id.* at 2.

⁸ See EKPC's response to Staff's First Request, Items 4.b. and 4.c.

term, EKPC requests authority to pay an amendment fee to each lender, as well as legal and other related costs.⁹ EKPC requests that the December 31, 2015 balance of \$960,000 in deferred financing fees outstanding from its 2011 Credit Facility, as amended and restated in 2013, as well as any new amendment fees and expenses, be amortized over the life of the new Credit Facility.¹⁰

EKPC states that because of the delay regarding the timing of loan advances for the multiple projects being funded by the Rural Utilities Service (“RUS”), the Credit Facility is essential to maintain its liquidity, to enable it to serve its customers, and to comply with regulations.¹¹

The National Rural Utilities Cooperative Finance Corporation (“CFC”) will continue to be the Lead Arranger and Administrative Agent for the proposed Credit Facility and will syndicate the facility to other lenders. EKPC intends to use the proceeds from the amended and extended Credit Facility to replace the borrowings under the existing Credit Facility, to fund capital expenditures associated with the construction of utility plant until permanent, long-term financing can be obtained, to provide necessary funding for approved regulatory assets and for general corporate purposes.¹² There is no property currently planned to be specifically acquired or constructed directly by the proceeds of the proposed transaction.¹³

⁹ Application, Exhibit 1 at 3.

¹⁰ *Id.* at 5.

¹¹ *Id.* at 1 and Exhibit 1 at 2 and 3.

¹² *Id.* at 3 and Exhibit 1 at 2.

¹³ *Id.* at 3.

DISCUSSION

The Commission is aware of the complexities associated with RUS financing. In Case No. 2012-00249, the Commission approved EKPC's request to replace its existing RUS mortgage covering most of its property with a trust indenture. Use of the trust indenture allows EKPC greater flexibility to obtain financing from sources other than RUS, a flexibility needed in part because RUS's lending and guaranty authority are subject to an annual appropriations process. However, EKPC intends to continue to use RUS financing for certain projects, as evidenced by its statement in Case No. 2013-00259¹⁴ that it planned to finance an alteration to its environmental controls at its Cooper Station generating facility through a RUS-guaranteed loan.

The complexities associated with RUS financing were also identified in Case No. 2012-00192.¹⁵ In that case, the Commission approved the request of Nolin Rural Electric Corporation ("Nolin") to refinance 100 percent of its existing RUS debt with \$50 million in new CFC debt. Nolin's request was premised on recent and ongoing difficulties with RUS's loan process and the stringent, and inflexible, requirements associated therewith.¹⁶

¹⁴ Case No. 2013-00259, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for Alteration of Certain Equipment at the Cooper Station and Approval of a Compliance Plan Amendment for Environmental Surcharge Recovery* (Ky. PSC Feb. 20, 2014), Application at paragraph 24.

¹⁵ Case No. 2012-00192, *Application of Nolin Rural Electric Cooperative Corporation for an Order Pursuant to KRS 278.300 and 807 KAR 5:011, Section 11 and Related Sections, Authorizing the Cooperative to Obtain a Loan in the Amount of \$50,000,000 from the National Rural Utilities Cooperative Financing Corporation* (Ky. PSC June 22, 2012).

¹⁶ *Id.*, Application at 3.

EKPC's existing Credit Facility was approved by the Commission in Case No. 2011-00204 and amended and extended in Case No. 2013-00306.¹⁷ EKPC states that since that time, credit markets and interest rate spreads have remained stable; however potential changes in the credit markets could result in less favorable interest rates.¹⁸ In addition, EKPC's financial results reflect improvement; it obtained an investment-grade credit rating of "BBB+" from Fitch Ratings shortly after the 2013 amendment and extension was granted by the Commission, and in November 2014, Standard and Poor's upgraded it to "A-,"¹⁹ While EKPC does not expect immediate savings from the proposed transaction, it is currently realizing savings from the existing Credit Facility due to its improved credit rating, which lowered facility fees and LIBOR margin, and decreased the cost on its undrawn fee.²⁰ EKPC also maintains the proposed Credit Facility will lock in favorable rates for a significantly longer period than the existing Credit Facility, thus avoiding higher interest rates if the market increases.²¹

The improvements in EKPC's credit ratings, combined with the opportunity for additional savings under the proposed amended and extended Credit Facility, should result in significant savings to EKPC. The Commission commends EKPC for taking advantage of the financing alternatives available to it, thereby securing savings for itself, its member-owners and their retail consumers.

¹⁷ Application, Exhibit 1 at 1.

¹⁸ *Id.*

¹⁹ See EKPC's response to Staff's First Request, Item 2.a.

²⁰ *Id.*

²¹ *Id.*, and Application, Exhibit 1 at 1.

Given the foregoing, the Commission is persuaded that the proposed amendment and extension of the Credit Facility, along with the term loan, accordion feature and extension(s), will be in the best interests of EKPC, its member distribution cooperatives, and their retail member ratepayers. In order to monitor EKPC's progress with the term loan and accordion feature and extension(s), the Commission will require EKPC to provide the Commission with certain information.

FINDINGS

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. Approval of the proposed amendments and extension to the unsecured revolving Credit Facility in an amount up to \$800 million, of which \$100 million may be in the form of an unsecured renewable term loan and \$200 million which will be in the form a future increase option, for a term up to five years with two one-year extension options, is for lawful objects within the corporate purposes of EKPC's utility operations, 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's proposal to amortize the December 31, 2015 balance in deferred financing fees of \$960,000 outstanding from its amended and extended 2011 Credit Facility, and the new amendment fees and expenses, over the life of the new Credit Facility is reasonable and should be approved.

3. The proceeds resulting from the proposed amendments and extension of the unsecured revolving credit agreement should be used only for the lawful purposes set out in EKPC's application.

4. The terms and conditions of proposed amendments and extension of the unsecured revolving credit agreement should be consistent with the terms and conditions described in EKPC's application.

IT IS THEREFORE ORDERED that:

1. EKPC's request for the amendment and extension of its unsecured revolving credit agreement for up to \$800 million, as described in its application, for five years from the date of closing and two one-year extensions is approved.

2. EKPC's proposal to amortize the balance in deferred financing fees and the new amendment fees and expenses over the life of the new credit facility is approved.

3. The proceeds resulting from the proposed amendments and extension of the unsecured revolving credit agreement shall be used only for the lawful purposes set out in EKPC's application.

4. The terms and conditions of proposed amendments and extension of the unsecured revolving credit agreement shall be consistent with the terms and conditions described in EKPC's application.

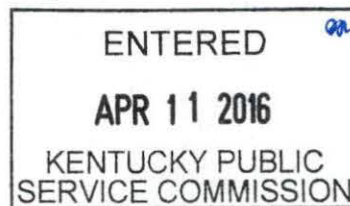
5. EKPC shall, within 30 days of the issuance, file with Commission a statement setting forth the date or dates of issuance of the term loan, accordion feature, or the extension provision authorized herein. For the term loan and accordion feature, the statement shall include the proceeds of such issuances, the interest rate(s), the

maturity date(s) and all fees and expenses involved in the issuances of these evidences of indebtedness.

6. Any document filed pursuant to ordering paragraph 5 of this Order shall reference the number of this case 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



ATTEST:

Acting Executive Director

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