EAST KENTUCKY POWER COOPERATIVE

July 28, 2005

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PUBLIC SERVICE COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2005-00267

Dear Ms. O'Donnell:

Please find enclosed for filing with the Commission in the above-referenced case an original and five copies of the responses of East Kentucky Power Cooperative, Inc., to the Commission Staff's information requests in this case dated July 14, 2005.

Very truly yours,

Charles A. Lile

Charles A. Lile
Senior Corporate Counsel

Enclosures

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EAST KENTUCKY POWER COOPERATIVE, INC.

CASE 2005-00267

RESPONSE TO PSC ORDER DATED JULY 14, 2005

EAST KENTUCKY POWER COOPERATIVE, INC.

CASE 2005-00267

RESPONSE TO PSC ORDER DATED JULY 14, 2005

Question. Refer to the Application, Petition for Confidential Treatment of Information, page 2. East Kentucky Power states that its proposed credit facility is the most favorable interim financing of this size available at this time.

a. Identify the types of interim financing considered by East Kentucky Power and explain why the proposed credit facility was chosen over the other types of financing. Include all calculations and work papers necessary to explain East Kentucky Power's choice of its proposed credit facility

b. If no other interim financing options were considered, explain why East Kentucky Power did not consider any other interim financing options.

Response. a. As an RUS borrower with an RUS mortgage, East Kentucky's ability to obtain secured financing is time and lender constrained (due to the restrictions in the mortgage and the time it takes the RUS to review and approve lien accommodations and/or government loans). Therefore, unsecured financing was the only option available to meet East Kentucky's current interim financing needs.

East Kentucky approached CFC, its primary non-government lender, about the various options available, including increasing its existing line of credit. However, due to its single obligor limits, CFC was unable to increase its commitment to East Kentucky to the extent required. Further, the interest rate on the CFC line of credit would have been at standard CFC member rates, which are not explicitly linked to any market index, but are set by the CFC Board based on CFC's cost of funds and their view of market conditions. The CFC Line of Credit rate is typically higher then the all-in rate (LIBOR + spread) at which East Kentucky will be able to borrow under the proposed syndicated facility. From 1993 to 2005, the savings would have averaged 49 basis points. Please see page 3 of this question for the detailed calculations.

While East Kentucky received verbal proposals from a number of commercial banks and investment banks, none of them was delivered in writing or with any underwriting assurance (i.e., they were offered on a best efforts basis at market-based rates and terms). This contrasts with the written terms and conditions and firm commitment received from the Bank of Tokyo and CFC (the "Syndicate"). In comparing the verbal offers from the other commercial and investment banks with the firm commitment received from the

Syndicate, it became clear that the verbal offers were similar in all respects except that the Syndicate provided a firm commitment as opposed to a "best efforts" offer. Therefore, because the Bank of Tokyo and CFC were able to provide East Kentucky with desirable pricing and certainty of funding in a timely manner, they were selected.

In the future, as the public markets become more familiar with co-ops in general and East Kentucky in particular, we expect that more and more lenders will compete for East Kentucky's business and we will receive increasing numbers of firm offers and increasingly customized and competitive terms.

b. See above response.

CFC RATE HISTORY

	Date	CFC Rate	LIBOR-based Rate	Savings (bps)
	1993	4.425%	4.263%	16
	1994	5.219%	5.344%	(13)
	1995	6.688%	7.002%	(31)
	1996	6.367%	6.460%	(9)
	1997	6.625%	6.640%	(1)
	1998	6.588%	6.600%	(1)
	1999	6.325%	6.237%	9
	2000	7.992%	7.386%	61
	2001	7.021%	5.094%	193
	2002	4.383%	2.800%	158
	2003	3.258%	2.229%	103
	2004	3.100%	2.441%	66
thru	Jul-05	4.664%	3.876%	79

Average from 8/1993 thru 7/2005 **49**

* CFC Rate as of the beginning of each month
** LIBO Rate as of the 30th day of each month
Therefore, the end of month LIBO Rate is used to compare the CFC rate in the preceding month.
For example, for Aug-93, the LIBO Rate used is the rate as of 7/30/93, and the CFC rate used is the rate as of 8/1/93.

Witness: David G. Eames

EAST KENTUCKY POWER COOPERATIVE, INC.

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Question. Refer to the Application, Exhibit 2, page 1 of 3. As part of its evaluation of financing options, did East Kentucky Power ask the National Rural Utilities Cooperative Finance Corporation ("CFC") about its involvement with other similar credit facility arrangements?

a. If yes, provide a list showing all current credit facility arrangements with which CFC is involved.

b. If no, explain why East Kentucky Power didn't inquire about CFC's experience with credit facility arrangements.

Response. a. CFC has traditionally met 100% of the interim and long-term funding requests of members such as East Kentucky. However, when the funding needs of individual cooperatives exceed CFC's single obligor exposure limits, CFC arranges syndicated financing with its partners to meet member needs. In the recent past CFC has implemented, and is in the process of implementing, a number of syndications, including the following:

- In 2004, a $213 million 12-year syndicated financing for a generation and transmission cooperative. CFC underwrote $138 million and the syndication partners, consisting of insurance companies and the farm credit bank system, provided the balance ($75 million).
- In 2004, a $40 million secured facility for a G&T cooperative. CFC holds $10 million of this secured debt.
- Also in 2004, a $587 million secured facility for a rural telephone company. Rural Telephone Finance Cooperative (RTFC), a CFC affiliate, holds $178 million commitment in this facility. RTFC is also the Administrative Agent for this transaction.

b. Not applicable

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Question. Refer to the Application, Exhibit 2, page 1 of 3. Under the Terms and Conditions section, the Lenders are defined as a syndicate of financial institutions including CFC and The Bank of Tokyo-Mitsubishi, Ltd. ("BTM").

a. Provide a list of any other financial institutions included in the syndicate.

b. Has East Kentucky Power found any proposed financial institutions not acceptable for inclusion in the syndicate? If yes, identify the financial institution and the reason it was not acceptable.

Response. a. The banks targeted for the East Kentucky syndication were identified from a universe of 45 to 50 lenders that fall into at least one of the following categories:

A. Have participated in syndicated loans with CFC and rural electric cooperatives,
B. have expertise in the power project finance market, or
C. are active in the investor owned utility market.

From this universe of banks, approximately 30 were selected and contacted. The banks contacted were asked about their experience and appetite for borrowers from the cooperative sector, risk and return hurdles, and the timing of their credit process.

Banks that are under strong consideration for this transaction include the Bank of Tokyo (committed), CFC (committed), Scotiabank, JP Morgan, Bank of America, Lasalle Bank, Fifth-Third Bank, PNC, SMBC, SunTrust, and CoBank (and other members of the farm credit system). The final syndicate is expected to consist of a total of 12 to 15 banks.

b. No. EKPC has not specifically excluded any financial institutions from the syndicate. But, banks that do not lend to the cooperative sector, have experience in power project finance, or banks not active in the lending to IOUs have declined to participate in the syndicate.

Witness: David G. Eames

EAST KENTUCKY POWER COOPERATIVE, INC.

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RESPONSE TO PSC ORDER DATED JULY 14, 2005

Question. Refer to the Application, Exhibit 2, page 2 of 3.

a. Explain whether East Kentucky Power expects that an interest rate based on the London Interbank Offered Rate ("LIBOR") or an interest rate based on the alternate base rate would typically yield the most favorable rate to East Kentucky Power.

b. Assume that East Kentucky Power borrowed funds under its proposed facility on July 1, 2005. Provide a comparison of the interest rate that East Kentucky Power would have to pay under the LIBOR-based rate with the interest rate under the alternative base rate. For the purposed of this example, any variable other that the interest rate base should be held constant.

Response. a. Generally, LIBOR will be more favorable since it is usually lower than the alternate base rate ("ABR"), which is generally the Prime Rate in effect. However, with all LIBOR advances, the borrower has to choose 1-, 2-, 3-, or 6-month LIBOR at the time of the borrowing, and any prepayment on that borrowing could be subject to a breakage fee. With ABR borrowings, East Kentucky can prepay at any time without fees. It should be noted that the ABR would most likely be used only if LIBOR would not be able to be calculated or if East Kentucky required a very short-term (few days) advance of funds.

b. On July 1, 2005, a borrowing based on LIBOR would have been at an interest rate of 4.34 % versus a borrowing under the alternative base rate of 6.25 %.

Witness: David G. Eames

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RESPONSE TO PSC ORDER DATED JULY 14, 2005

Question. Refer to the Application, Exhibit 2, page 2 of 3, the section titles "Conditions Precedent to Closing".

a. Identify the governmental and regulatory approvals required for this proposed transaction and the status of each approval as of the date of this data request.

b. Assume that the closing date for the proposed transaction occurs on September 30, 2005. Indicate when East Kentucky Power expects to satisfy the requirements of conditions 2 through 5.

Response. a. The only governmental and regulatory approval required is from the Kentucky Public Service Commission. This approval is pending.

b. Condition 2 will be satisfied on the closing date. Condition 3 is already satisfied in that EKPC has submitted a Rural Utilities Service ("RUS") loan application for permanent financing. Condition 4 will be satisfied prior to closing. Condition 5 is an ongoing requirement, which will be satisfied prior to, as well as after, the closing.

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RESPONSE TO PSC ORDER DATED JULY 14, 2005

Question. Refer to the Application, Exhibit 2, page 3 of 3.

a. Explain what consequences or penalties East Kentucky Power could face if it fails to meet one or more of the required financial covenants during the five-year term of the proposed credit facility

b. Explain whether East Kentucky Power meets all of the minimum requirements of the financial covenants set forth as of the date of this date request.

Response. a. If East Kentucky Power ("EKP") misses a financial covenant it can request a temporary waiver, which will require the approval of at least 50% (based on dollar value) of the syndicate lenders. Fees associated with waivers would be in the range of $50,000 per waiver, which is typical for a transaction of this size. Without a waiver, the East Kentucky would no longer be able to advance funds under the facility. Furthermore, the loan could be in default should the situation continue beyond the cure period and no waiver or no restructuring be requested or granted.

b. Two of the covenants are the same as those of the Rural Utilities Service ("RUS") Mortgage and EKP is not currently violating any of those financial covenants. East Kentucky meets and is expected to meet all minimum covenant requirements.