



Mark David Goss
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July 6, 2011

HAND DELIVERED

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

RECEIVED

JUL 06 2011

PUBLIC SERVICE
COMMISSION

Re: PSC Case No. 2011-00204

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case an original and eight copies of the responses of East Kentucky Power Cooperative, Inc. to Commission Staff's First Information Request Dated July 1, 2011.

Very truly yours,

Mark David Goss
Counsel

Enclosures

c: Parties of Record

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR APPROVAL OF AN)	CASE NO.
UNSECURED REVOLVING CREDIT AGREEMENT)	2011-00204
FOR A TERM OF UP TO FIVE YEARS AND IN AN)	
AMOUNT UP TO \$500,000,000)	

**RESPONSES TO COMMISSION STAFF'S FIRST INFORMATION REQUEST
TO EAST KENTUCKY POWER COOPERATIVE, INC.**

DATED JULY 1, 2011

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

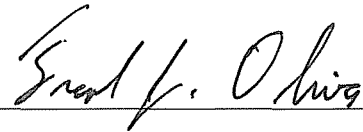
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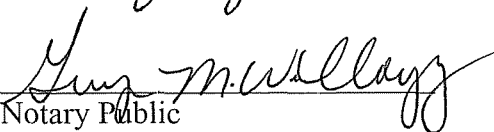
CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Frank J. Oliva, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff First Information Requests in the above-referenced case dated July 1, 2011, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.



Subscribed and sworn before me on this 6th day of July, 2011.


Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2011-00204
FIRST INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S FIRST INFORMATION REQUEST DATED 07/01/11
REQUEST 1

RESPONSIBLE PARTY: Frank J. Oliva

COMPANY: East Kentucky Power Cooperative, Inc.

Request 1. Refer to Exhibit 2, page 2, of EKPC's June 13, 2011 application.

a. The last sentence in the paragraph preceding the heading Key Terms and Conditions, states "EKPC is expecting a financial closing date in July 2011." Based on that expectation, explain whether EKPC has a target date for receiving Commission approval of its financing proposal in this case.

b. Interest rates for the proposed credit facility are described in the fourth bullet under the heading Key Terms and Conditions. The three options available to EKPC--the LIBOR Margin, the Alternate Base Rate, and the ABR Applicable Margin-- are the same options identified for EKPC's current credit facility in its application in Case No. 2010-00166. For the current credit facility, identify which interest option has been most favorable to EKPC over the time that the facility has been in effect.

Response 1a. Due to the significant savings involved, EKPC desires to close on its new Credit Facility as soon as possible. The receipt of Commission approval by July 25 would allow a closing date in late July or early August 2011 and enable EKPC to maximize the savings in interest expense.

Response 1b. The interest rate based on the LIBOR Margin has been the most favorable to EKPC under the existing Credit Facility. Because the alternate rates are generally based on the higher Prime Rate rather than LIBOR, the rate based on the LIBOR Margin should continue to provide the most favorable rate for the Credit Facility which is the subject of this current proceeding (Case No. 2011-00204).

**EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2011-00204
FIRST INFORMATION REQUEST RESPONSE**

**COMMISSION STAFF'S FIRST INFORMATION REQUEST DATED 07/01/11
REQUEST 2**

RESPONSIBLE PARTY: Frank J. Oliva

COMPANY: East Kentucky Power Cooperative, Inc.

Request 2. Refer to Exhibit 2, page 3, of EKPC's application. The top portion of the page consists of a section entitled Pricing Grid, a section that was not in EKPC's application in Case No. 2010-00166. This section establishes parameters for how the Facility Fee, LIBOR Margin, and ABR Margin will be determined in the event EKPC obtains credit ratings. Explain why this application includes such a section when the previous application did not. Describe the circumstances which were not applicable at the time of Case No. 2010-00166 but which are currently applicable and under which EKPC may now seek to obtain credit ratings.

Response 2. Because EKPC is not currently rated by the credit rating agencies, the pricing on EKPC's new Credit Facility (Case No. 2011-00204) is based on an implied credit rating of BBB. By the fall of 2011, EKPC hopes to have applied for and received credit ratings from two of the credit rating agencies. In the event that EKPC is rated better than a BBB rating, the pricing grid has been established so as to reduce the interest rate on EKPC's Credit Facility borrowings accordingly.

As listed below, several circumstances are now different from the time of Case No. 2010-00166.

- The Liberty Management Audit of EKPC had just been released and banks were cautious of lending to a utility that was subject to such a negative tone in a management audit.

EKPC has now responded to the management audit recommendations and the Commission Staff has acknowledged improvements made by EKPC.

- EKPC achieved a net margin of \$32.8 million for 2010. This is the fourth consecutive year that EKPC has earned a TIER of at least 1.25. This continuing trend of positive margins establishes credibility with the banks.
- EKPC has continued this positive trend of net margins for the first quarter of 2011, achieving a net margin of \$33.9 million.

Because of these improvements in EKPC's situation, and concerns about the long-term availability of financing from RUS, EKPC believes it is now prudent to broaden its access to credit markets for future financing needs. This requires substituting a Trust Indenture for the existing RUS mortgage, and further requires that EKPC obtain at least two investment-grade credit ratings. As previously mentioned, EKPC intends to pursue the credit ratings and Trust Indenture shortly, during the time when the subject credit facility is in place, and, therefore, included the Pricing Grid in the proposed terms to automatically adjust the interest rate spread on this financing as EKPC obtains ratings and continues to improve its financial health.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2011-00204
FIRST INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S FIRST INFORMATION REQUEST DATED 07/01/11
REQUEST 3

RESPONSIBLE PARTY: Frank J. Oliva

COMPANY: East Kentucky Power Cooperative, Inc.

Request 3. Refer to Exhibit 2, page 5, of EKPC's application. The last paragraph refers to EKPC's proposal to write-off \$3.9 million in 2011 in deferred financing fees from its 2010 credit facility. The last sentence states that EKPC has discussed the accounting treatment with its external auditor. Explain whether EKPC received any guidance or advice from its external auditor concerning this proposal.

Response 3. EKPC spoke with its external auditor and discussed its plans to write-off the \$3.9 million in deferred financing fees from its 2010 credit facility, versus other accounting treatments of these deferred financing fees. EKPC's external auditor concurred that such a write-off is appropriate under generally accepted accounting principles and any other treatment would be inappropriate.