

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. FOR APPROVAL OF THE)	
AUTHORITY TO ISSUE UP TO \$300,000,000 OF)	
SECURED PRIVATE PLACEMENT DEBT AND/)	
OR SECURED TAX EXEMPT BONDS AND FOR)	CASE NO.
THE USE OF INTEREST RATE MANAGEMENT)	2018-00115
INSTRUMENTS)	

ORDER

On March 27, 2018, East Kentucky Power Cooperative, Inc. (“East Kentucky”) filed an application for authorization to issue up to \$300 million of secured private placement debt, secured tax-exempt bonds, or some combination thereof; and to enter into interest-rate management agreements in an effort to control its overall interest costs. Pursuant to KRS 278.300 (2), the Commission is required to rule on the application within 60 days unless it is necessary for good cause to continue the proceeding.

Here, though requesting permission to incur \$300 million in debt, East Kentucky provided little detail as to how the amounts will be raised or the terms under which the amounts will be raised. Moreover, East Kentucky requested permission to enter into interest rate management agreements with little explanation as to the type, amount or value of the agreements. Thus, the Commission finds that good cause exists to extend the application period an additional 60 days to continue its investigation of the application.

IT IS THEREFORE ORDERED that:

1. The Commission will extend the extend the statutory application period an additional 60 days, up to and through July 24, 2018, to further investigate the application.

2. East Kentucky shall file with the Commission the original and ten copies of its responses to the requests for information set forth in the Appendix to this Order within 15 days of the date of this Order.

3. a. Responses to requests for information shall be appropriately bound, tabbed, and indexed and shall include the name of the witness responsible for responding to questions related to the information provided, with copies to all parties of record, and the original and ten copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or an association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

f. A party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that the personal information cannot be read.

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By the Commission

ENTERED
MAY 24 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2018-00115

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00115 DATED **MAY 24 2018**

1. Refer to the Application, Paragraph 3. Provide the increased capital expenditures East Kentucky is anticipating over the next several years. Include estimated expense, purpose, detailed explanation, anticipated construction completion time, and method of financing for each item.

a. Identify how East Kentucky intends to finance or has financed other portions of each such capital project, to the extent that East Kentucky does not intend to finance the projects fully with amounts for which approval is sought herein.

2. Refer to the Application, page 3, Item 10. Provide a detailed list of all construction projects and general corporate purposes for which funds were drawn against East Kentucky's current \$600 million credit facility, reducing it by \$300 million. Include an amount and description of each project or purpose.

3. For each capital project identified in response to Item 1, state whether East Kentucky has obtained, is seeking, or intends to seek approval from the Commission for the capital projects by requesting a Certificate of Public Convenience and Necessity ("CPCN"); provide the case number in which each capital project was approved or in which approval is being sought, or state when East Kentucky anticipates seeking approval, if applicable.

4. East Kentucky states that a portion of the proceeds from this transaction may be used to reduce some or all of the outstanding obligations of East Kentucky's unsecured Credit Facility. Explain in detail the circumstances that would cause East

Kentucky to use the proceeds to pay any outstanding short-term financing. Include the amount of debt to be paid and the current interest rate charges.

5. If East Kentucky pays a portion or all of the outstanding unsecured Credit Facility, state whether East Kentucky plans to continue to utilize the unsecured Credit Facility in the future. If so, state the extent to which East Kentucky intends to continue using the unsecured Credit Facility and why.

6. State and explain the extent to which East Kentucky currently expects to raise the \$300 million at issue herein with secured private placement debt; the extent to which East Kentucky currently expects to raise the \$300 million at issue herein with secured tax exempt bonds; and the factors that would affect East Kentucky's decision to raise capital using one means or the other.

7. Refer to page 3, Item 8 of the Application, which states that "the proceeds of the proposed transaction(s) will be used to reduce borrowings under Applicant's unsecured Credit Facility, to fund capital expenditures associated with the construction of utility plant, and for general corporate purposes." Identify and describe in detail each "general corporate purpose" referred to therein and state the extent to which East Kentucky expects to use any funds requested herein for each such general corporate purpose.

8. Refer to Exhibit 1 to the Application in which East Kentucky states that the secured debt will be issued pursuant to an Indenture of Mortgage and Security Agreement and Financing Statement dated October 11, 2012. A copy of that agreement is filed in Case No. 2016-00116 with the Commission. Provide a copy of any supplements or

amendments thereto, of the Indenture of Mortgage and Security Agreement and Financing Statement.

9. Refer to the Application, Exhibit 1, in which East Kentucky states “[i]t is anticipated that the interest rate will be fixed.” State whether East Kentucky is seeking approval from the Commission to incur debt with a variable interest and, if so, whether and what precautions and safeguards would be in place to limit the interest rate on any variable rate debt.

10. Refer to the Application, Exhibit 1, in which East Kentucky states that it “desires to utilize interest-rate management techniques and to enter into interest rate management agreements in an effort to control its overall effective interest costs.” Identify and describe in detail each “interest rate management technique” East Kentucky is referring to therein. Identify and describe in detail each “interest rate management agreement” East Kentucky is referring to therein by describing the type of agreements into which East Kentucky seeks approval to enter; how those agreements function to hedge against interest rate increases; and the parties with whom East Kentucky seeks to enter into such agreements. Provide a sample of the interest rate management agreements to which East Kentucky is referring therein.

11. Refer to Exhibit 1 of the Application.

- a. Provide the most current interest rates if East Kentucky were to issue a secured private placement indebtedness or secured tax exempt bonds.
- b. Provide a detailed analysis illustrating estimated interest cost savings for East Kentucky that can result from the use of interest rate management techniques.

12. East Kentucky anticipates purchasing products such as interest rate swaps, caps, collars, floors, options, or hedging products and retaining those products as it deems necessary to hedge against interest rate increases.¹

- a. Describe how East Kentucky anticipates purchasing such products.
- b. Describe how East Kentucky anticipates using and managing such products.
- c. Describe how East Kentucky proposes to ensure the quality of such products, and state the extent to which East Kentucky is requesting approval to invest in such products.

13. Identify and describe in detail any interest rate management instruments for which East Kentucky seeks approval herein that has not been described above.

- a. How does East Kentucky plan to purchase such instruments?
- b. How does East Kentucky plan to use such instruments to manage interest rates?
- c. How does East Kentucky propose to ensure the quality of such instruments; state the extent to which East Kentucky is requesting approval to invest in such instruments.

14. State what, if any, limits East Kentucky contends would be reasonable for the Commission to place on its use of interest rate management techniques and instruments and explain the basis for East Kentucky's position.

¹ Application at Exhibit 1, p. 2

15. Has East Kentucky identified any risks posed by the use of interest rate management techniques and instruments? Describe those risks and how East Kentucky proposes to mitigate them.

16. Explain whether the issuance of additional debt will affect East Kentucky's ability to secure additional financing in the future at competitive rates.

17. Explain how the issuance of additional debt will affect East Kentucky's equity position.

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