Goss Samford

ATTORNEYS AT LAW | PLLC

David S. Samford
david@gosssamfordlaw.com
(859) 368-7740

June 8, 2018

Via Hand-Delivery

Ms. Gwen Pinson
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2018-00115

Dear Ms. Pinson:

On behalf of East Kentucky Power Cooperative, Inc. ("EKPC"), please find enclosed for filing in the record of the above-referenced case an original and ten (10) copies of EKPC's Response to Commission Staff's Request for Information propounded May 24, 2018. Please return a file-stamped copy of this filing to my office

Please do not hesitate to contact me if you have any questions or concerns.

Very truly yours,

David S. Samford (by R. Crowder)

David S. Samford

Enclosures

RECEIVED

JUN 08 2018

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

RESPONSES TO COMMISSION STAFF'S REQUEST FOR

INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.

DATED MAY 24, 2018

RECEIVED

JUN 08 2018

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Tom Stachnik, being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff's Request for Information in the above-referenced case dated May 24, 2018, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.

[signature]

Subscribed and sworn before me on this 8th day of June 2018.

[signature] # 590567
Notary Public

GWYN M. WILLOUGHBY
Notary Public
Kentucky – State at Large
My Commission Expires Nov 30, 2021

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 1
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 1. There are two projects contributing to East Kentucky Power Cooperative, Inc's. ("EKPC") expected increase in capital expenditures during this time period: a $60 million backup fuel oil project at the Bluegrass facility in Oldham County and a $260 million CCR / ELG project at the Spurlock plant in Maysville. These projects will add approximately $320 million to EKPC's capital plan and are anticipated to be completed in 2020 and 2024, respectively. The specific details of the CCR / ELG project have been provided in EKPC's recently approved CPCN application (Case No. 2017-00376). EKPC will seek a CPCN for the Bluegrass backup fuel oil project prior to commencing construction.

Over the next five years, considering these two projects, capital expenditures are expected to average $155 million per year. EKPC's base capital expenditures (not including large, one-time items such as the Bluegrass facility and Cooperative Solar) have averaged $75-80 million over the past 5 years.

EKPC typically finances projects using operating cash flow and the Credit Facility until such time as it qualifies for RUS or other long-term financing. The private placement issuance requested in this application will serve to increase the availability on EKPC's credit facility and provide liquidity for capital projects and other financing needs. Like the Credit Facility, it will not be linked to a particular project – it is a corporate financing rather than a project financing such as RUS provides.

As the projects are completed, it is EKPC's expectation that new project financing, through RUS or other means, will be procured, if it has a need for the funds. Due to the long process of obtaining RUS funds after construction is complete, an increase in the level of underlying Treasury rates could result in RUS financing at rates higher than what can be obtained in the current private placement market. By locking in a portion at current long-term rates, corporate financing now could be less costly than waiting several years in the future when construction is complete and project financing becomes available.

As referenced in Paragraph 3 of the application, there are several reasons that EKPC has chosen to pursue this type of financing. A private placement issuance will ensure adequate liquidity by increasing availability on the Credit Facility. Liquidity, evaluated by credit rating agencies as not only cash on hand but also Credit Facility availability, is important for EKPC to maintain. Credit Facility capacity allows EKPC to fund projects during the construction phases, until such time that project financing can be secured. This capacity also allows EKPC to fund general corporate purposes, which could include uses such as (but not limited to) operating expenses, debt service, capital expenditures, capital credit payments, or temporary investments. Adequate capacity supports EKPC's strategic goal of Financial Flexibility and allows it to absorb many unforeseen shocks that could cause a business disruption if immediate access to short-term financing is not made available.

EKPC's financial strategy includes utilizing the Credit Facility each year and periodically, as the Credit Facility nears its limit (or we anticipate nearing the limit due to increased capital expenditures), replacing the Credit Facility borrowings with long-term, generally fixed rate financing. Thus, rather than allowing the Credit Facility to accumulate a balance close to its limit, EKPC has made the decision to exchange a portion, if not all, of the unsecured, variable rate debt on the Credit Facility for secured, fixed rate debt at currently advantageous rates. By doing this, EKPC's overall debt portfolio would remain the same, since the funds will most likely be used to pay down some, if not all, of the balance on the Credit Facility. Given upcoming anticipated liquidity requirements, EKPC has requested this type of corporate financing to accommodate for the increased need of adequate working capital and short-term financing availability over the next several years.

Request 1(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.

Response 1(a). As answered above in Response 1, the private placement issuance would not be linked to a particular project, but rather an anticipation of future liquidity requirements. EKPC typically funds ongoing capital construction projects with available working capital and with funds from the Credit Facility. When large capital expenditures are anticipated in the near term, it is important for EKPC to proactively secure the liquidity needed to finance these projects as well as for any general corporate purposes. When the projects have been completed, planted, and placed into service, EKPC will still seek RUS financing if rates remain favorable and it has need of the funds.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 2
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 2. EKPC utilizes the syndicated Credit Facility as total cash flow requirements dictate. It is used for working capital purposes, for example, during times of lower than expected sales, higher than anticipated expenditures, to aid in debt service obligations, to absorb unforeseen shocks, etc. It is also used to aid in the financing of construction projects until they are completed. The Credit Facility is an important resource that allows EKPC to ensure that adequate liquidity is available, as the cash flow needs of the organization require. As EKPC's general operating funds are depleted, the Credit Facility is a mechanism that is utilized to replenish those funds. Advances on the Credit Facility are not drawn against a particular capital project and are therefore not tracked to this level of detail. A more adequate calculation of the uses of cash can be found on EKPC's Statement of Cash Flows, which has been included on page 2 of this response.

East Kentucky Power Cooperative, Inc.

Statements of Cash Flows
(Dollars in Thousands)

	Year Ended December 31	
	2017	2016
Operating activities		
Net margin	$ 22,142	$ 53,708
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	121,475	106,366
Amortization of loan costs	1,077	1,132
Changes in operating assets and liabilities:		
Accounts receivable	(2,990)	(14,907)
Fuel	(2,294)	24,135
Materials and supplies	(418)	(3,903)
Regulatory assets/liabilities	(353)	1,869
Accounts payable	(3,612)	7,002
Accrued expenses	1,167	24,394
Accrued postretirement benefit cost	3,825	4,841
Other	(6,583)	(13,102)
Net cash provided by operating activities	133,436	191,535
Investing activities		
Additions to electric plant	(100,134)	(74,634)
Restricted deposits held in escrow	1,500	–
Maturities of debt service reserve securities	4,247	4,246
Purchases of debt service reserve securities	(4,250)	(4,248)
Maturities of available-for-sale securities	34,035	60,531
Purchases of available-for-securities	(36,697)	(59,037)
Maturities of held-to-maturity securities	90	91
Additional deposits with RUS restricted investment	(241,202)	(474,225)
Maturities of RUS restricted investment	134,917	136,560
Other	227	136
Net cash used in investing activities	(207,267)	(410,580)
Financing activities		
Proceeds from long-term debt	368,568	784,000
Principal payments on long-term debt	(279,894)	(491,167)
Debt issuance costs	–	(1,145)
Net cash provided by financing activities	88,674	291,688
Net change in cash and cash equivalents	14,843	72,643
Cash and cash equivalents – beginning of year	124,116	51,473
Cash and cash equivalents – end of year	$ 138,959	$ 124,116
Supplemental disclosure of cash flow		
Cash paid for interest	$ 114,697	$ 88,631
Noncash investing transactions:		
Additions to electric plant included in accounts payable	$ 14,434	$ 14,240
Unrealized gain (loss) on available-for-sale securities	$ 6	$ (42)

See notes to financial statements.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 3
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 3. A CPCN has been granted by the Commission for the CCR/ ELG project in Case Number 2017-00376. EKPC will seek a CPCN for the Bluegrass backup fuel oil project prior to construction.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 4
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 4. EKPC's intends to use this financing to pay down some, if not all, of the existing unsecured Credit Facility balance. This will allow EKPC to lock in a favorable fixed interest rate and ensure liquidity for these capital projects and other working capital needs.

The current (all-in) rate on EKPC's Credit Facility is 2.93%. This rate has increased 80% from December 2016 (1.63%) and typically moves in tandem with Fed Fund rate increases. The Fed is expected to increase rates another two to three more times in 2018. Given short-term rates are typically more volatile, EKPC foresees an opportunity to exchange some, if not all, of the short-term debt on the Credit Facility with secured, long-term debt, while long-term rates remain advantageous.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 5
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 5. EKPC plans to maintain the Credit Facility moving forward. The Credit Facility proceeds are used 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. Because of the delay regarding the timing of loan advances for the multiple projects being funded by RUS, this Credit Facility is essential to maintaining EKPC's liquidity. Establishing availability on the Credit Facility by periodically refinancing to long-term debt helps EKPC to manage the effect of any project financing delays.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 6
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 6. EKPC is prepared to execute a private placement transaction shortly after Commission approval to lock in a favorable interest rate and enhance liquidity. While EKPC is not planning an immediate tax-exempt financing, it is considering it as a possible future option. There are several financing scenarios that EKPC could pursue as a part of this issuance. For example, if private placement rates remain favorable at the time of approval, EKPC could issue $150-200 million through a secured private placement issuance as it explores whether or not there is an attractive opportunity for a tax-exempt issuance at a later date. Alternatively, if interest rates become more attractive, EKPC could choose to advance all $300 million in a private placement.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 7
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 7. The proceeds of the financing requested herein are expected to be used to reduce EKPC's Credit Facility balance. Since money is fungible, EKPC specifies "general corporate purposes" to establish with the lenders that this financing would not be tied to any specific project. "General corporate purposes" could include items such as, but not limited to, operating expenses, debt service, capital expenditures, capital credit payments, or temporary investments.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 8
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 8. The second supplemental indenture is included as "Attachment 1 to Response 8 - Second Supplemental Indenture", while the third supplemental indenture is included as "Attachment 2 to Response 8 - Third Supplemental Indenture" on the enclosed CD.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 9
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 9. One of EKPC's main motivations for issuing long-term, fixed-rate debt is to lock interest rates at a time when rates remain favorable. Any private placement issuance would have a fixed interest rate. While no specific tax-exempt issuance is currently planned, some of the potential tax-exempt structures are issued as floating-rate instruments, but can be converted to fixed rates by using hedging instruments.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 10
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 10. Since EKPC would not enter into any hedge that is speculative in nature, it would not hedge an issuance that has not been approved. Given this, EKPC's preferred way to manage the interest rate of the proposed private placement issuance is for a speedy approval of a private placement issuance, followed by issuing shortly after gaining Commission approval. Quick approval and execution reduce the risk of significant adverse interest rate movements.

While EKPC has no current plan to use interest rate hedging tools for an imminent private placement issuance, for future flexibility EKPC would like to have approval for the use of certain interest-rate management tools for non-speculative purposes which would include:

1) Entering into a swap contract to fix a portion of EKPC's revolving or term loan debt which would not exceed the maturity date of the credit facility.
2) Entering into a swap contract to fix the interest rate on a floating RUS advance or tax-exempt floating-rate debt. Such a contract would be "matched" to the underlying floating debt so that there would be no exposed or unhedged variable-rate debt, and no speculative (uncovered or "naked") swap contract positions.
3) Entering into a forward-starting swap or treasury lock to lock the rate of an anticipated fixed-rate RUS advance or approved private placement transaction. These are more difficult for EKPC to utilize because the closing date for the financing cannot be known in advance, so the swap or lock could expire before or after the financing is executed, and thus is not fully matched. Permission to utilize such interest-rate risk management tools has been sought by EKPC in a previous private placement application, Case No. 2013-00306, and was approved by the Commission.

EKPC would only enter into standard hedging agreements with highly rated ("A" or better from Fitch/S&P) bank counterparties governed by an ISDA agreement. The extent of such instruments would be limited by the amount of underlying exposure to be hedged, i.e. the approved private placement amount, expected RUS funding, or amount of floating-rate debt already incurred.

A sample of a hedging contract for a treasury lock transaction is included as pages 3-7 of this response.

Derivatives Product Group
190 South LaSalle Street
Chicago, IL 60603

TO: East Kentucky Power Cooperative, Inc.

ATTENTION: Tom Stachnik **EMAIL:** Tom.Stachnik@ekpc.coop

SENDER'S NAME: Derivatives Product Group

DATE: 05/30/2018

NUMBER OF PAGES (including cover sheet): 5

Re: Treasury Lock Transaction

Please find the attached:

- Copy of the Draft Confirmation of a potential Derivative transaction

This is a Pre-Trade Draft Confirmation prepared at your request by U.S. Bank pursuant to CFTC Rule 23.501a.3.iii.

This Pre-Trade Draft Confirmation is solely for informational purposes and cannot be executed.

U.S. Bank National Association

Attention: Derivatives Product Group
Fax#: 855-203-9959
Email: derivatives.documents@usbank.com

Please call 312-332-7644 if you have any questions.

CONFIDENTIALITY NOTICE

If you have not submitted a form indicating your payment method, please fill out the form below, sign and include with the attached confirmation.

Payment Method Form

Below are the 3 acceptable methods of settling payments. You will always receive payment notices from our operations group detailing the payments, amounts, and rates on each leg of the derivative transaction.

1) U.S. Bank DDA - Automatic Settlement

Payments are automatically debited/credited through a U.S. Bank DDA account. This can be a savings account, checking account, operating account, money market, etc.

Required Information:

U.S. Bank DDA Account #:	
U.S. Bank ABA (Routing #):	

2) Wire Transfer:

Payments fulfilled through wire transfer.

U.S. Bank Wire Instructions:

Bank Name:	U.S. Bank N.A
ABA (Routing #):	091000022
Account #:	0000-225-2550020
Attention:	Derivative Operations

Wire Instructions for Customer:

Bank Name:	
ABA (Routing #):	
Account #:	
Attention:	

3) External (Non-U.S. Bank) DDA - ACH Settlement

Payments are automatically debited/credited through a DDA account held at another financial institution using the ACH payment mechanisms. This can be a savings account, checking account, operating account, money market, etc.

Required Information:

Bank Name:	
Bank ABA (Routing #):	
DDA Account #:	
Account Type:	

U.S. Bank Payment method accepted and confirmed:

By Title: ______________________________________

DRAFT

Pre-Trade Confirm

This is a Pre-Trade Draft Confirmation prepared at your request by U.S. Bank pursuant to CFTC Rule 23.501a.3.iii.

This Pre-Trade Draft Confirmation is solely for informational purposes and cannot be executed.

May 30, 2018

East Kentucky Power Cooperative, Inc.
Attn: Tom Stachnik
4775 Lexington Road
Winchester, KY 40392

Re: Treasury Lock Transaction between U.S. Bank National Association and East Kentucky Power Cooperative, Inc.

Ladies/Gentlemen:

This communication sets forth the terms for the above-referenced transaction entered into between U.S. Bank National Association (**"U.S. Bank"**) and East Kentucky Power Cooperative, Inc. (**"Counterparty"**) on the Trade Date set forth below (the **"Transaction"**), and constitutes a "Confirmation" that supplements, forms a part of, and is subject to the ISDA Master Agreement executed by the parties (as amended and supplemented from time to time, the **"ISDA Master Agreement"**).

The definitions and provisions contained in the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. (the **"ISDA Definitions"**) are incorporated into this Confirmation. In the event of any inconsistency between the ISDA Definitions and this Confirmation, this Confirmation will govern.

1. The terms of the particular Transaction to which this Confirmation relates are as follows:

Type of Transaction:	Treasury Rate Lock - Cash Settled
Notional Amount:	USD 100,000,000
Trade Date:	TBD
Determination Date:	July 31, 2018, subject to adjustment in accordance with the Following Business Day convention.
Cash Settlement Payment Date:	One Business Day following the Determination Date
Cash Settlement Amount:	U.S. Bank shall determine the Cash Settlement Amount on the Determination Date in accordance with the following formula:

The product of (i) the yield differential between the Locked Rate and the Index Rate, expressed in basis points (i.e., 1 basis point=0.01%), and (ii) the Dollar Value of a Basis Point.

The "Dollar Value of a Basis Point" shall mean the price change, expressed in U.S. Dollars, which would occur on a face amount, equal to the Notional Amount, of the Securities if the yield to maturity moves one basis point from the Index Rate.

If the Index Rate is lower than the Locked Rate, Counterparty shall pay to U.S. Bank the Cash Settlement Amount on the Cash Settlement Payment Date. If the Index Rate is higher than the Locked Rate, U.S. Bank shall pay to Counterparty the Cash Settlement Amount on the Cash Settlement Payment Date.

Security:	As of the Determination Date, The Then Current 10 - Year U.S. Treasury Note.
Locked Rate:	TBD
Index Rate:	As of the Determination Date, the yield-to-maturity (expressed as a percentage) of the Security, as determined by U.S. Bank based upon quotes that are representative of where major dealers would offer for sale the Security with an aggregate nominal value equal to the Notional Amount.
Business Days:	New York
Calculation Agent:	As set forth in the ISDA Master Agreement
Payments to U.S. Bank:	Standard Instructions previously provided or reference Payment Method Form
Payments to Counterparty:	As previously provided, or if not provided, please return Payment Method Form

2. **Representations.** This Confirmation is a legal, valid and binding obligation of each party, enforceable against each party. Each party is hereby deemed to represent to the other party that: (A) it is acting for its own account, and it has made its own independent decisions to enter into the Transaction and that the Transaction is appropriate or proper for it based upon its own judgment or upon advice from its advisors; (B) it is not relying on any of the other party's communications as investment advice or as a recommendation to enter into the Transaction, it being understood that information and explanations related to the Transaction's terms and conditions shall not be considered investment advice or a recommendation to enter into the Transaction; (C) it has not received from the other party any assurance or guarantee as to the Transaction's expected results; (D) it is, on its own behalf or through independent professional advice, capable of evaluating and understanding and understands and accepts the Transaction's terms, conditions, and risks; (E) the other party is not acting as a fiduciary or an advisor for it in respect of the Transaction; and (F) it is an "eligible contract participant" under the regulations promulgated by the CFTC.

3. **Regulatory compliance.** While the Transaction is outstanding, Counterparty will remain obligated

to deliver information to U.S. Bank as may be required by U.S. Bank or any applicable regulators.

4. **Mid-Market.** The Mid-Market Mark at time of trade: TBD

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing this Confirmation enclosed for that purpose and returning a copy via fax or email to:

U.S. Bank National Association
Attention: Derivatives Product Group
Fax#: 855-203-9959
Email: derivatives.documents@usbank.com

This is a Pre-Trade Draft Confirmation prepared at your request by U.S. Bank pursuant to CFTC Rule 23.501a.3.iii.

This Pre-Trade Draft Confirmation is solely for informational purposes and cannot be executed.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 11
RESPONSIBLE PARTY: Tom Stachnik

Request 11. Refer to Exhibit 1 of the Application.

Request 11a. Provide the most current interest rates if East Kentucky were to issue a secured private placement indebtedness or secured tax exempt bonds.

Response 11a. Private placement debt is priced based on a benchmark treasury rate determined by the tenor of the financing plus a credit spread that reflects EKPC's credit risk. Given current treasury rates and indications from our banking partners, all-in financing is expected to be in the range of 4.0% to 4.5%, for amortizing structures with a 15- to 18-year weighted-average life and a 30-year final maturity. However, rates have been volatile and actual rates could be higher or lower at the time of issuance.

Request 11b. Provide a detailed analysis illustrating estimated interest cost savings for East Kentucky that can result from the use of interest rate management techniques.

<u>Response 11b.</u> If EKPC uses interest-rate risk management tools, its goal would be risk management, not interest savings. For example, EKPC could use hedging instruments to lock in a benchmark rate and limit exposure to interest rate fluctuations prior to issuance.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 12
RESPONSIBLE PARTY: Tom Stachnik

Request 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]

Request 12a. Describe how East Kentucky anticipates purchasing such products.

Response 12a. As discussed in Response 10, EKPC plans to enter into standard hedging agreements only with bank counterparties governed by an ISDA agreement.

Request 12b. Describe how East Kentucky anticipates using and managing such products.

Response 12b. EKPC would only use hedging instruments for the non-speculative reasons discussed in Response 10.

[1] Application at Exhibit 1, p. 2

<u>Request 12c.</u> 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 it such products.

<u>Response 12c.</u> EKPC would only enter into standard hedging agreements and only with highly rated ("A" or better from Fitch/S&P) bank counterparties governed by a standard ISDA agreement. The extent of such instruments would be limited by the amount of underlying exposure to be hedged, i.e. the approved private placement amount, expected RUS funding, or amount of floating-rate debt already incurred.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 13
RESPONSIBLE PARTY: Tom Stachnik

Request 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 it such instruments.

Response 13a-c. Answer has been fully covered in Requests 10 and 12.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 14
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 14. It would be reasonable to limit EKPC's use of interest-rate management tools to non-speculative purposes which would include:

1) Entering into a swap contract to fix a portion of EKPC's revolving or term-loan debt which would not exceed the maturity date of the credit facility.
2) Entering into a swap contract to fix the interest rate on a floating RUS advance or tax-exempt floating-rate debt
3) Entering into a forward-starting swap or treasury lock to lock the rate of an anticipated fixed-rate RUS advance or approved private placement transaction.

Any such interest-rate management tool can be limited to the amount of the associated financing (the interest-rate management tool cannot exceed the amount of financing), and the tenor of the associated financing (the interest-rate management tools cannot mature or settle after the financing is fully repaid). Exceeding either of these boundaries, in EKPC's view, is speculating.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 15
RESPONSIBLE PARTY: Tom Stachnik

Request 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.

Response 15. The main risk for these agreements would be counterparty risk, which would be managed by only entering into agreements with highly rated bank counterparties, governed by an ISDA agreement which would require collateral if certain credit triggers occur.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 16
RESPONSIBLE PARTY: Tom Stachnik

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

Response 16. Theoretically, any incremental financing EKPC incurs uses some of its debt capacity, but also by the same measure lowers its need for future financing. In the case of this proposed private placement issuance, EKPC will use some of its secured debt capacity to offset some of its unsecured debt capacity by repaying the Credit Facility. While the overall mix of secured and unsecured debt outstanding will change, the overall debt portfolio will not increase. Thus, this financing will not adversely affect EKPC's ability to meet future financing needs.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2018-00115
RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S REQUEST FOR INFORMATION DATED 05/24/18
REQUEST 17
RESPONSIBLE PARTY: Tom Stachnik

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

Response 17. Since this debt will be replacing other existing debt, there should be no effect on EKPC's equity position.