Goss ▪ Samford PLLC
Attorneys at Law

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PUBLIC SERVICE COMMISSION

August 29, 2013

HAND DELIVERED

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

Re: PSC Case No. 2013-00306

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case an original and eight redacted copies of the responses of East Kentucky Power Cooperative, Inc. ("EKPC"), to Commission Staff's Initial Request for Information dated August 23, 2013 and EKPC's Motion for Confidential Treatment of Information. One copy of the designated confidential portions of the responses is enclosed in a sealed envelope.

Very truly yours,

Mark David Goss

Mark David Goss

Enclosures

2365 Harrodsburg Road, Suite B-325 | Lexington, Kentucky 40504

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. 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 UP TO $500,000,000, AND FOR THE USE OF INTEREST RATE MANAGEMENT INSTRUMENTS	)	Case No. 2013-00306

RESPONSES TO COMMISSION STAFF'S
INITITAL REQUEST FOR INFORMATION
TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED AUGUST 23, 2013

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2013-00306

PUBLIC SERVICE COMMISSION REQUEST DATED 08/23/13

East Kentucky Power Cooperative, Inc. ("EKPC") hereby submits responses to the information requests contained in the Order of the Public Service Commission ("PSC") in this case dated August 23, 2013. Each response with its associated supportive reference materials is individually tabbed.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. 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 UP TO $500,000,000, AND FOR THE USE OF INTEREST RATE MANAGEMENT INSTRUMENTS	)	**Case No. 2013-00306**

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's Initial Requests For Information in the above-referenced case dated August 23, 2013, 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.

Frank J. Oliva

Subscribed and sworn before me on this 29th day of August 2013.

Notary Public

MY COMMISSION EXPIRES NOVEMBER 30, 2013
NOTARY ID #409352

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2013-00306
RESPONSE TO INFORMATION REQUEST

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 08//23/13
REQUEST 1
RESPONSIBLE PARTY: FRANK J. OLIVA

Request 1(a). Refer to Exhibits 2, 3, and 6 of the application regarding the proposed issuance of up to $200,000,000 in private placement debt in one or more transactions over a time period ending December 31, 2014 and the use of the proceeds.

a. Provide the projected date of each placement and explain why each date was selected.

Response 1(a). Dependent on market conditions and Commission approval, EKPC's current plans are to issue one or two tranches of private placement debt in the fourth quarter of 2013 or early in 2014. EKPC desires the ability to adjust the timing of its financing program subject to developments in the debt markets.

Request 1(b). Explain in detail why EKPC anticipates the interest rate will be fixed on the private placement debt.

Response 1(b). Investor appetite is primarily for fixed-rate debt in the private placement market and the majority of private placement debt is issued in this manner. EKPC also desires to enter into fixed-rate financing while interest rates are low.

Request 1(c)(1). In Exhibit 6, EKPC states, "Whereas, EKPC needs to finance the remaining balance of the Smith Unit 1 regulatory asset, estimated to be $90,000,000 to $120,000,000, over an approximate term of 10 years;"

(1) Provide the current balance in the regulatory asset account for Smith Unit 1.

Response 1(c)(1). The balance in the Smith Unit 1 regulatory asset account as of August 28, 2013 was $150,221,471.

Request 1(c)(2). Identify and explain what factors will affect the final amount in the regulatory asset proposed to be financed with the private placement debt.

Response 1(c)(2). EKPC is seeking a buyer for all or a portion of the equipment included in the Smith Unit 1 regulatory asset account and is simultaneously evaluating the possible use of any of the equipment at EKPC's other plants. The value of the equipment that can be monetized through a sale or utilized at other EKPC plants will impact the final amount remaining in the regulatory asset account. The proceeds of any sales of the Smith Unit 1 tangible assets will be used to reduce the balance in the Credit Facility; but any internal use of those assets would not generate cash and so could not be used to reduce the Credit Facility outstanding balance.

The Smith Unit 1 regulatory asset is one example of the costs incurred and financed through the Credit Facility. Because numerous costs are financed using that facility, and repayments of the facility are not typically tied to specific costs or projects, it is not strictly possibly to determine a balance in the Credit Facility for any given expenditure. Thus the private placement debt is intended to relieve the Credit Facility, creating availability thereunder for future borrowings as needed to support the ongoing operations of EKPC.

Request 1(c)(3). State whether EKPC intends to have a ten-year term for the private placement debt related to financing the remaining balance of the regulatory asset. If no, explain why.

Response 1(c)(3). Most private placement debt issues are priced by the investors based on the average life of the financing. Average life is the same as the final maturity for "bullet" repayments (where the entire principal amount is due upon final maturity) and about half of the final maturity for amortizing debt. Because many private placement investors desire average life maturities in the 7 to 15 year range, the pricing is more favorable for such average lives. EKPC will most likely attempt to place this tranche of the private placement financing in this range, resulting in a possible final maturity of slightly greater than 10 years, but with a lesser average maturity.

Request 1(d). In Exhibit 3 of the application, EKPC lists the uses of the proceeds from the proposed issuance of the private placement debt. Identify, to the extent known, the specific target for expenditures included in each item a. through d.

Response 1(d). As EKPC currently has $275,000,000 outstanding on its Credit Facility, the proceeds from the private placement financing are expected to be used to reduce the outstanding balance of the Credit Facility. Because both the final unmitigated balance of the Smith 1 regulatory asset and the amount of the proposed private placement financing are unknown at this time, it is not possible to estimate with certainty the disposition of funds secured through the private placement financing. EKPC plans to retire debt outstanding in the Credit Facility approximating the unmitigated balance of the Smith Unit 1 regulatory asset. The remaining proceeds from the private placement financing will be used to fund otherwise unfunded capital expenditures related to EKPC's electric generation and transmission business.

Request 1(e). Based on EKPC's current credit rating by Fitch Ratings and Standard and Poor's, provide a Pricing Grid similar to that referenced in Exhibit 2, page 3 of EKPC's application in Case No. 2011-00204 to show the parameters for the interest rates on the private placement debt for 10-, 20-, and 30-year terms. Also, as referenced on Exhibit 2, page 1 of the application, include information to show the current yield to maturity for United States Treasury Bonds for the respective terms listed above, and current yield to maturity plus 3 percent.

Response 1(e). EKPC has received estimates of indicative pricing from financial institutions and investors, in anticipation of a private placement financing. These indicative rates are based on a credit spread (in basis points) over the current US Treasury rate for various maturity terms. The credit spread will be negotiated with investors, who will bid in a Dutch auction type process. The credit spread is estimated to be in the range of to basis points.

As requested, below are indicative interest rate parameters, based on EKPC's "BBB" credit rating, for 10, 20, and 30 year terms. US Treasury Bond yields for 10 years, 20 years, and 30 years at August 23, 2013 were 2.82%, 3.55%, and 3.80%, respectively. Also shown is the current yield on US Treasury Bonds plus 3%.

Indicative interest rate for 10 years:	[redacted]
Indicative interest rate for 20 years:	[redacted]
Indicative interest rate for 30 years:	[redacted]
US Treasury rate for 10 years plus 3%:	5.82%
US Treasury rate for 20 years plus 3%:	6.55%
US Treasury rate for 30 years plus 3%:	6.80%

Request 1(f). Explain EKPC's plan for repayment of the proposed private placement debt. If there are any variances due to the terms of the specific tranche, explain the difference(s).

Response 1(f). EKPC's plan for repayment will generally be based on the investors' appetite for repayment, which will be reflected in the average life of each debt tranche. Final maturities are expected to be between 10 years and 30 years. Principal and interest payments will probably be made annually or semi-annually. The principal payment schedule may be customized, but the average life and final maturity of the financing will not exceed the parameters discussed in the application.

Request 1(g). Refer to page 5 of Exhibit 2 of the application regarding the fees and expenses in connection with any interest-rate management tools. Explain how the ceiling for fees and expenses of 5 percent of the amount of the underlying obligation was determined.

Response 1(g). Any interest rate management techniques utilized will be used to control, reduce, or stabilize EKPC's interest costs. The cost effectiveness of any such programs will take into account the fees and expenses associated with the program. Only economically effective programs will be utilized. EKPC has not yet investigated pricing on any specific interest rate management agreements. Therefore, the pricing of any specific program is not available. The 5% cap on fees and expenses was simply an effort to establish a boundary on the costs for this type of agreement, similar to an effort by the Commission in Case No. 2010-00369. A copy of any such interest-rate management agreement will be provided to the Commission within 30 days of its execution.

Request 1(h). Refer to page 5 of Exhibit 2 of the application regarding the interest-rate management instruments. Identify each type of instrument that will be available to EKPC, and the estimated cost stated as a percentage of the underlying obligation involved.

Response 1(h). As stated in Response 1(g), EKPC has not yet investigated pricing on any specific interest rate management agreements. Therefore, the pricing of any specific program is not available. The types of instruments available to EKPC are listed on page 5 of Exhibit 2 of the application.

Request 1(i)(1). Refer to the last item on page 1 of Exhibit 6 of the application where it states, "Resolved, that the EKPC Board of Directors authorizes EKPC to enter into a Private Placement financing agreement consisting of tranches having terms up to 30 years, in a total amount not to exceed $150,000,000, except that in the case that more favorable than expected pricing is achieved, at the discretion of EKPC's Chief Executive Officer, the Private Placement may be upsized to an amount not to exceed $200,000,000"

(1) Explain what constitutes more favorable than expected pricing for the private placement debt.

Response 1(i)(1). When EKPC approaches the financial markets for a private placement financing, it will receive initial indicative pricing estimates based on market intelligence from its placement agent and investors. Prior to closing on a private placement financing, final pricing bids are submitted by investors. If the final bids submitted by investors are better than the initial indicative pricing, this would be considered more favorable than expected pricing.

Request 1(i)(2). Identify when EKPC would expect to make the decision to "upsize" the amount of private placement debt.

Response 1(i)(2). Any decision to "upsize" the transaction would most likely be made after pricing bids are received from investors.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2013-00306
RESPONSE TO INFORMATION REQUEST

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 08//23/13
REQUEST 2
RESPONSIBLE PARTY: FRANK J. OLIVA

Request 2. Refer to the last sentence in the first paragraph on page 1 of Exhibit 2. Confirm that the reference should be to Case No. 2012-00249.

Response 2. Reference should be to Case No. 2012-00249.

REDACTED

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2013-00306
RESPONSE TO INFORMATION REQUEST

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 08//23/13
REQUEST 3
RESPONSIBLE PARTY: FRANK J. OLIVA

Request 3. Refer to the last sentence on page 3 of Exhibit 2. Provide the calculations supporting the projected $2,000/day savings.

Response 3. EKPC is engaged in confidential negotiations with its Credit Facility lenders, to reduce the Facility Fee and LIBOR Margin pricing in its Credit Agreement with them. [redacted]

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2013-00306
RESPONSE TO INFORMATION REQUEST

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 08//23/13
REQUEST 4
RESPONSIBLE PARTY: FRANK J. OLIVA

Request 4(a). Refer to the second paragraph on page 4 of Exhibit 2 and the responses to Items 1 and 2 of Commission Staff's First Information Request ("Staff's First Request") in Case No. 2011-00204.

a. Identify and explain any changes that have occurred since the Final Order was issued in Case No. 2011-00204 in how the LIBOR interest rate is computed.

Response 4(a). There has been no change in the manner that the LIBOR interest rate is computed since the issuance of the final order in Case No. 2011-00204.

Request 4(b). Explain in detail the items being negotiated with the lenders, including the current and proposed specific terms of each item and the expected cost savings related to each.

Response 4(b). Please refer to Response No. 3.

Request 4(c). Identify and provide the basis for the statement that the amendment fees and expense will not exceed 0.20 percent of the Credit Facility commitment.

Response 4(c). The amendment fees being offered by EKPC to lenders are equal to [redacted] of existing commitments and [redacted] of new commitments. Total amendment fees being offered, if the Credit Facility is increased to $500,000,000, is equal to about [redacted] or less than [redacted] percent of the Credit Facility commitment.

Request 4(d). Provide the calculation used to determine the net savings of $1,500,000 from a reduction in the Facility Fee and LIBOR Margin over the life of the Credit Facility.

Response 4(d). A minimum of $1,500,000 in savings is expected to be achieved over the 5-year life of the amended Credit Facility. As explained in Response No. 3, [redacted] per year in savings is expected from the reduced Facility Fee. [redacted] years of these savings exceed $1,500,000. The savings at higher borrowing levels (outstanding balances) on the Credit Facility will be greater because of the interest rate savings.

Request 4(e). Provide the net present value of the net savings over the term of the Credit Facility.

Response 4(e). The [redacted] present value of the net savings described in Response No. 4(d). is approximately [redacted].

Request 4(f). Provide EKPC's current ratings by Fitch Ratings and Standard and Poor's, including any information pertaining to those ratings.

Response 4(f). EKPC has a senior secured credit rating of "BBB" from Fitch Ratings and an issuer credit rating of "BBB" from Standard & Poor's. EKPC has a

REDACTED

positive rating outlook from Standard & Poor's and a stable rating outlook from Fitch Ratings.

Request 4(g). Provide an updated Pricing Grid, as referenced in Exhibit 2, page 3 of EKPC's application in Case No. 2011-00204, to show the parameters of the Facility Fee, LIBOR Margin, and ABR Margin in this case based upon EKPC's current ratings by Fitch Ratings and Standard and Poor's.

Response 4(g). Please see table below.

Level	S&P	Moody's	Fitch	ABR Rate Margin (Bps)	LIBOR Rate Margin (Bps)	Facility Fee (Bps)
1	≥A+	≥A1	≥A+	[redacted]	[redacted]	[redacted]
2	A	A2	A	[redacted]	[redacted]	[redacted]
3	A-	A3	A-	[redacted]	[redacted]	[redacted]
4	BBB+	Baa1	BBB+	[redacted]	[redacted]	[redacted]
5	BBB	Baa2	BBB	[redacted]	[redacted]	[redacted]
6	<BBB	<Baa2	<BBB	[redacted]	[redacted]	[redacted]

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2013-00306
RESPONSE TO INFORMATION REQUEST

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 08//23/13
REQUEST 5
RESPONSIBLE PARTY: FRANK J. OLIVA

Request 5. Refer to the following statement in the second paragraph of Exhibit 2, page 4 of the application: "It is expected that the amendment fees and expenses will not exceed 0.20% of the Credit Facility commitment." Provide the current amendment fees and expenses percentage.

Response 5. There are no amendment fees currently being paid.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2013-00306
RESPONSE TO INFORMATION REQUEST

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 08//23/13
REQUEST 6
RESPONSIBLE PARTY: FRANK J. OLIVA

Request 6(a). Refer to the following statement in the second paragraph of Exhibit 2, page 4 of the application: "Based on the current market conditions. Applicant believes that today's interest rate under the Credit Facility would not exceed 2.5%." Also, refer to page 3 of Exhibit 5 of the application, CFC - Unsecured Credit Facility - #5106002, Coupon Interest Rate of 1.78 percent.

a. Explain why the current CFC - Unsecured Credit Facility indebtedness with a Coupon Interest Rate of 1.78 percent is to be refinanced at higher interest rate.

Response 6(a). The current Unsecured Credit Facility indebtedness is not to be refinanced at a higher rate. In fact, if LIBOR rates remain stable, this interest rate is expected to decline, as explained in Response No. 3. The 2.5% interest rate mentioned on page 4 of Exhibit 2 of the application is meant to reference the highest rate that could reasonably be expected in the short-term, if LIBOR interest rates were to suddenly increase. Such an increase would affect both the existing and the proposed amended Credit Facility, with the proposed facility always having a lower total interest rate due to the reductions described in Response No. 3.

Request 6b. Explain whether the current rate is a fixed or variable and whether the refinanced rate is fixed or variable.

Response 6b. Both the current and refinanced rates are variable.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2013-00306
RESPONSE TO INFORMATION REQUEST

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 08//23/13
REQUEST 7
RESPONSIBLE PARTY: FRANK J. OLIVA

Request 7a. Refer to the last paragraph on page 4 of Exhibit 2 in the application and EKPC's response to Item 3 of Staff's First Request in Case No. 2011-00204.

a. Explain why EKPC proposes to amortize the current outstanding balance in deferred financing fees rather than to write them off as proposed in Case No. 2011-00204.

Response 7. In Case No. 2011-00204, EKPC requested authority to terminate its existing Credit Agreement and to enter into a new Credit Agreement. Since the old Credit Facility was being terminated, EKPC's auditors concurred that it would be appropriate and consistent with generally accepted accounting principles (GAAP) to write off the existing deferred financing fees. The extant case requests authority to amend, not terminate, our existing Credit Agreement. Therefore, we are requesting to amortize existing financing fees over the remaining life of the amended and extended Credit Facility in accordance with paragraphs 470-50-40-21 through 40-22 of the FASB Accounting Standards Codification (ASC), which is limited to modifications to or exchanges of line-of-credit or revolving debt arrangements where the involved parties are the same as those of the original arrangement. This guidance prescribes that when the borrowing capacity of the modified arrangement is greater than or equal to the borrowing capacity of the existing arrangement, any unamortized deferred costs, fees paid to the creditor, and any third party costs incurred with the modification of the agreement should be deferred and amortized over the term of the newly modified arrangement.

Request 7b. Explain whether EKPC's proposal to amortize the deferred financing fees is in conformity with generally accepted accounting principles.

Response 7b. The proposal to amortize the current balance in deferred financing fees is in conformity with GAAP as referenced in the FASB ASC noted in 7a. above.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2013-00306
RESPONSE TO INFORMATION REQUEST

STAFF'S INITIAL REQUEST FOR INFORMATION DATED 08//23/13
REQUEST 8
RESPONSIBLE PARTY: FRANK J. OLIVA

Request 8. Refer to page 3 of Exhibit 5 of the application, CFC - Unsecured Credit Facility - #5106002 in the amount of $275,000,000. Provide the amount of indebtedness, by project, including Smith Unit 1, for the $275 million.

Response 8. The outstanding balance in the Credit Facility is approximately $275,000,000. This amount results from frequent borrowings to fund various expenditures and frequent repayments as cash flows allow. Although the initial borrowings can sometimes be identified with a specific project, such as the $150,000,000 spent on the Smith Unit 1 regulatory asset, the repayments are never specific to any project or expenditure. With this in mind, approximately $150,000,000 of the $275,000,000 outstanding can be considered related to the Smith Unit 1 regulatory asset. The remaining balance outstanding, along with EKPC general funds, has been used to fund a variety of transmission and generation projects in the ordinary course of business. Because these dollars are fungible, it is not practical to attempt to specifically allocate discrete projects between EKPC general funds and the Credit Facility.