

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

REQUEST OF EAST KENTUCKY POWER)
COOPERATIVE, INC. FOR AUTHORITY TO)
ISSUE POLLUTION CONTROL BONDS IN AN)
AMOUNT NOT TO EXCEED \$145,000,000) CASE NO. 9143
RELATIVE TO AN ELECTRIC GENERATING)
PLANT CONSTRUCTED IN MASON COUNTY,)
KENTUCKY)

O R D E R

On September 21, 1984, East Kentucky Power Cooperative, Inc., ("East Kentucky") filed with the Commission a motion to amend the Order dated January 15, 1982, in Case No. 8410, as previously amended on November 22, 1983, to authorize the issuance of tax exempt floating/fixed rate bonds in an amount up to \$145 million to refinance its outstanding tax exempt pollution control commercial paper, and increase the authorized pollution control financing, relating to its Spurlock Station Unit No. 2 ("Spurlock No. 2"). The Commission confirmed the receipt of this motion on September 26, 1984, and informed East Kentucky that it had assigned a new case number to the proceedings for administrative purposes. An informal conference was held on October 4, 1984, at East Kentucky's request, during which Commission staff members, East Kentucky's representatives and representatives from the National Rural Utilities Cooperative Finance Corporation ("CFC"),

the underwriter and counsel for the underwriter, discussed the proposed financing.

East Kentucky proposes to refinance \$131,750,000 in outstanding Spurlock No. 2 tax exempt pollution control commercial paper, and to expand this financing to a revised maximum amount of \$145 million, by the issuance of 30-year floating/fixed rate bonds guaranteed by CFC. In order to avoid ramifications of the Deficit Reduction Act of 1984 enacted by Congress, East Kentucky plans to issue these bonds prior to December 31, 1984. This legislation will restrict positive arbitrage investment earnings on both debt service reserve funds and construction funds not immediately utilized and would, therefore, eliminate earnings which now help to offset the costs of such financing. The law will also impose limits on the amount of tax exempt industrial revenue bonds which can be issued by an individual state. This limit, which could restrict further expansion of such pollution control financing, will not affect financing in place prior to December 31, 1984.

East Kentucky requires an expansion of the authorized amount of such pollution control financing in order to accommodate a debt service reserve fund which has not previously been required for the short-term financing; for the required purchase of additional CFC subordinated term certificates; and to pay various other expenses as detailed in its motion and exhibits.

The floating/fixed rate bonds will allow East Kentucky to secure permanent financing for Spurlock No. 2 pollution control facilities, but will not require East Kentucky to commit to long-term interest rates which are currently unfavorable. The floating

rate aspect of the bonds will allow East Kentucky to select from various short-term maturities with interest rates corresponding to market rates for bonds of similar maturities, until long-term rates improve. At such time, without the necessity of refinancing the outstanding floating rate bonds and incurring the additional costs and delays inherent in that process, East Kentucky will be able to convert to long-term rates for the remaining life of the bonds upon 30-days' notice to bondholders prior to specified conversion dates.

These bonds will be part of a continuing pooled debt program organized by CFC. The issue will be secured by its own bond indenture and by a pool indenture which provides diversified security to holders of bonds issued for any rural electric cooperative which participates in the pool. This diversified security is anticipated to result in a higher bond rating and a corresponding 1/4 to 1/2 percent reduction in interest rates on the bonds issued by East Kentucky. Such a pooled debt program was proposed by East Kentucky in November 1983, for the refinancing of up to \$50 million of Spurlock No. 2 pollution control debt. Although the Commission approved this proposed refinancing in an amended Order in Case No. 8410, East Kentucky did not join the pooled debt program at that time due to an increase in long-term interest rates above anticipated levels.

FINDINGS AND ORDERS

The Commission, having considered the information provided in East Kentucky's motion and exhibits, and additional information

provided during and subsequent to the conference with the Commission staff, is of the opinion and finds that:

1. There is a need for East Kentucky to refinance and expand its Spurlock No. 2 pollution control financing prior to December 31, 1984, in order to avoid federal statutory restrictions which would increase the cost of such financing and could limit any further expansion of such financing should it be refinanced after that date.

2. East Kentucky's proposed issuance of up to \$145 million in tax exempt floating/fixed rate pooled debt pollution control revenue bonds, to be guaranteed by CFC and relating to pollution control facilities at Spurlock No. 2, is for lawful objects within the corporate purposes of East Kentucky, is necessary for and consistent with the proper performance by East Kentucky of its service to the public, will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

IT IS THEREFORE ORDERED that East Kentucky be and it hereby is authorized to implement its proposed financing of up to \$145 million relating to Spurlock No. 2 pollution control facilities through one or more issuances of pollution control bonds in accordance with the terms and conditions described in its motion, the additional information filed with the Commission, and this Order.

IT IS FURTHER ORDERED that the proceeds from the bond issue or issues authorized herein shall be used for the lawful purposes as set out in the motion and this Order.

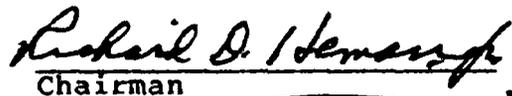
IT IS FURTHER ORDERED that nothing contained herein shall be construed as a finding of value for any purpose, or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof.

IT IS FURTHER ORDERED that within 45 days from the completion of the sale or sales of the pollution control bonds of Mason County, Kentucky, East Kentucky shall furnish the Commission the following data:

- (a) A copy of the completed documents governing the sales of the bonds and the loan of the proceeds to East Kentucky;
- (b) A listing of all expenses incurred in such financing.

Done at Frankfort, Kentucky, this 19th day of October, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary