

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY POWER)
COOPERATIVE, INC. FOR THE APPROVAL OF)
THE USE OF BOND-BASED FINANCING IN THE)
AMOUNT OF APPROXIMATELY \$20,500,000 FOR) CASE NO. 94-105
MODIFICATIONS TO ITS SPURLOCK POWER)
STATION, IN MASON COUNTY, KENTUCKY,)
RELATED TO THE INLAND CONTAINER PROJECT)

O R D E R

On March 15, 1994, East Kentucky Power Cooperative, Inc. ("East Kentucky") applied for authority to issue bonds in the amount of approximately \$20,500,000 to pay for modifications to its Spurlock Power Station. The bonds will be issued in two series. Series A bonds will have an estimated average life of 5.77 years and an estimated interest rate of 7.81 percent based on a 6.96 percent Treasury rate plus 85 basis points. Series B bonds will have an estimated average life of 15.80 years and an estimated interest rate of 8.31 percent based on a 7.36 percent interpolated (10-30) Treasury rate plus 95 basis points. As of March 4, 1994, serial maturity bonds had an estimated average coupon rate of 7.45 percent.

The new bond-based financing will be secured by a shared first mortgage lien on the assets and revenues of East Kentucky pursuant to a Type IIA lien accommodation from the Rural Electrification Administration ("REA"). The lien accommodation has not yet been granted by the REA. The bonds will be administered by the National

Cooperative Services Corporation ("NCSC"), an affiliate of the National Rural Utilities Cooperative Finance Corporation ("CFC").

The modifications to the Spurlock Power Station cost approximately \$19,716,000 and include \$15,300,000 for service to Inland Container Corporation ("Inland") and approximately \$4,416,000 for other station modifications. The balance of the financing would be used to pay for interest incurred during construction totalling \$512,000 and debt issuance costs of \$290,000.

On December 7, 1990, a Certificate of Public Convenience and Necessity for the modifications of the facilities necessary to serve Inland, with an estimated cost of \$10,000,000 was issued in Case No. 90-197.¹ The cost of the modifications was to be recovered over a 20 year period through monthly payments from Inland. According to information filed in the instant case, the actual contract and construction costs were \$19,716,000. The modifications were completed in November 1992, and were initially financed with general funds.

Although all of the new facilities at the Spurlock Power Station appear to be necessary, the record is not sufficient to determine which facilities were constructed specifically to serve Inland and which were needed for system-wide service. Due to the additional costs associated with the modifications, it will be

¹ Case No. 90-197, The Application of East Kentucky Power Cooperative for a Certificate of Public Convenience and Necessity to Construct Certain Steam Service Facilities in Mason County, Kentucky.

necessary to determine if the facilities charge paid by Inland is recovering all appropriate costs. Since this is a rate issue, it will be deferred for investigation in East Kentucky's future rate case which is anticipated to be filed by August 1994.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. The utilization of bond-based financing by East Kentucky of up to \$20,500,000 in Serial Bonds is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of its service to the public, is reasonably necessary and appropriate for such purposes, and should, therefore, be approved.

IT IS THEREFORE ORDERED that:

1. East Kentucky be and it hereby is authorized to secure \$20,500,000 in bond-based financing through the NCSC, an affiliate of the CFC.

2. East Kentucky shall agree only to such terms and prices as are consistent with the terms set out in its application.

3. East Kentucky shall, within 30 days after the issuance of each series of bonds, file with the Commission a statement setting forth the date or dates of issuance, the price paid, the interest rate, purchasers, and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance and distribution and the use of the proceeds.

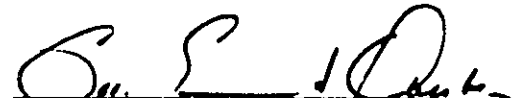
4. East Kentucky shall file with the Commission a copy of the lien accommodation granted by the REA within five days of its receipt.

5. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

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 as to the securities authorized herein.

Done at Frankfort, Kentucky, this 7th day of 7th day of June, 1994.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director