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Kentuckians petition federal rural utility agency

EKPC member-ratepayers request formal review of loan guarantees to financially strained co-op

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Ratepayers from 11 rural electric cooperatives in Kentucky today asked the Inspector General's office of the U.S. Department of Agriculture to formally review the agency's decision to approve up to $900 million in lien accommodations to East Kentucky Power Cooperative, which generates the electricity their co-ops buy.

EKPC is seeking permission from the Kentucky Public Service Commission to borrow $921 million to finance construction of a proposed coal-burning power plant in Clark County. Like a homeowner seeking a second mortgage, EKPC needs approval from the USDA's Rural Utilities Service, which is the utility's biggest creditor, to accumulate the additional debt. EKPC already has to repay more than $700 million it owes taxpayers for RUS loans it took out to build and operate other power plants.

The RUS approved the lien accommodation on EKPC's current debt in September.

"As both taxpayers and rural electric co-op members, we are concerned that there is no evidence that RUS completed any substantial financial review of EKPC before granting the lien accommodation," said Steve Wilkins, an 18-year member of the Blue Grass Energy Cooperative who lives in Madison County. "This is no different than banks making high-risk loans for home mortgages, and we all know what happened as a result of that."

EKPC documents show that it is dire financial condition. It has a debt-to-equity ratio far below other electric cooperatives, already has more than $2 billion in debt, and its own analysts say it is doubtful the cooperative could even reach an investment-grade credit rating.

A recent analysis of EKPC's financial reporting to the RUS and the Kentucky Public Service Commission by financial analyst Tom Sanzillo raises several questions about EKPC's request for the lien accommodation. For example, the documents show that EKPC was telling the RUS it was financially sound in order to secure the lien accommodation, but at the same time it also was asking the Kentucky Public Service Commission for a rate increase in part to improve its weak financial standing. This kind of information should have disqualified EKPC from getting its lien accommodation, Sanzillo's analysis shows, but didn't.

Such inconsistencies are disconcerting to co-op members.

"I know that if I walked into a bank where I have a mortgage and asked for permission to take on another huge loan, they'd look into every nook and cranny of my credit history and financial situation before letting me take on more debt," said Barb Bailey, a customer of Big Sandy Rural Electric Cooperative who lives in Hueysville. "The fact that EKPC doesn't even really need this plant, and their finances are so shaky ... those should have been real deal-breakers for the RUS."

Bailey said RUS's decision would end up costing her and other EKPC customers double, first as taxpayers, then through higher electricity rates. "I live here in eastern Kentucky, in an area with some of the highest poverty rates in the state," she said. "This is just not a gamble that people around here can afford to pay for."

EKPC had intended on financing the Smith plant through low-interest loans from the RUS. But in 2008, the agency halted the loan program, citing the risk to taxpayers of financing coal and nuclear plants. As a result, EKPC must secure loans with much higher interest rates from private lenders.

"The RUS's moratorium on financing coal-fired power plants signals that it had plenty of concerns about the risks of investing in coal in today's market," said Ed Zuger, a member of South Kentucky Rural Electric who lives in Burnside. "In this case, the RUS should go back and take a hard look at the need and cost, and then reconsider its decision to grant EKPC permission to seek unnecessary debt on the private market."

The 47 signatories of the petition say that had RUS exercised more due diligence, the agency would have uncovered EKPC's glaring financial problems and concluded that the cooperative is too poorly positioned to take on so much additional debt. They are asking the RUS to revisit the approval of EKPC's loan accommodation.

"I've been concerned for some time now that EKPC board members are not considering the financial consequences of the Smith plant," said Mike Hannon, a retired air quality inspector for the state of Kentucky who lives in Paint Lick and is a member of Blue Grass Energy. "Their decision to proceed with increasing debt and construction of a coal-burning power plant at a time when the coop is in such poor financial condition is disturbing. And we need for the RUS to bring some fiscal responsibility to this equation."

In addition to asking for a review specific to RUS's decision on EKPC, the rural co-op members also are asking the USDA to undertake a broader look at the agency's internal procedures regarding financial due diligence for loan guarantees and lien accommodations for any co-op building a coal-burning power plant.

"Sometimes the truth hurts," said Hannon, "but we need to make sure that American taxpayers and other co-op utility members won't have to face, or pay the penalty for, such huge financial risks."

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A copy of the petition letter to the U.S. Department of Agriculture's Inspector General is available online: www.kyenvironmentalfoundation.org