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Commissioner

October 27, 2011

## PARTIES OF RECORD

RE: Informal Conference for  
Case No. 2011-00391

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding the contents of the memorandum should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Ron Handziak of the Commission Staff at 502-564-3940, extension 230.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen  
Executive Director

Attachment

**INTRA-AGENCY MEMORANDUM**  
**KENTUCKY PUBLIC SERVICE COMMISSION**

TO: Case File No. 2011-00391

FROM: Ronald Handziak, Team Leader

DATE: October 27, 2011

SUBJECT: Informal Conference of October 21, 2011

An informal conference was held telephonically between Commission Staff and representatives of Shelby Energy Cooperative, Inc. ("Shelby") to discuss Shelby's application in the above-referenced case. A list of attendees is attached to this memorandum.

The purpose of the conference was to clarify several issues relating to Shelby's application to enter into a loan agreement with the National Rural Utilities Cooperative Finance Corporation ("CFC") in order to refinance certain of its Rural Utilities Service ("RUS") loans. Attached are the questions that were asked at the IC, and Shelby's responses to each question. Shelby agreed to file all revised exhibits by October 28, 2011.

There being nothing further to discuss, the meeting was adjourned

cc: Parties of Record

Commission Staff Questions asked of Shelby Energy at Telephonic Informal Conference in Case No. 2011-00391:

1. Refer to paragraph 7 of the application.

a. Confirm that only one note will result from this transaction with CFC not 16.

*Response: It is one note.*

b. Explain why Shelby seeks to borrow up to \$3,300,000, when the estimated payoff of the RUS loans is less than this amount.

*Response: The amount is higher than the estimated payoff because Shelby Energy wanted to err on side of caution. However, Shelby is only going to borrow from CFC enough to pay off the RUS loan.*

2. Refer to paragraph 12 of the application, wherein Shelby states that the expected actual payoff to be very close to \$3,265,439. Explain the origin of this amount.

*Response: The amount in the application is a typographical error. It should have been stated as \$3,167,660.86.*

3. The schedules provided in Exhibit 2 indicate that Shelby provided interest paid for the previous 12 months as of 7/31/11. Regulation 807 KAR 5:001, section 6(6) requires that interest paid in the last fiscal year be provided. Provide a revised Exhibit 2 with the interest paid in the last fiscal year.

*Response: Shelby will provide this item.*

4. The average interest rate on the loans listed on Exhibit 2, Page 2 of 3 is in excess of 6%. Would not Shelby reduce its annual interest expense more if these were the loans to be re-financed?

*Response: Refinancing the debt with the higher interest rates would result in Shelby incurring a prepayment penalty.*

5. Refer to Exhibits 3 and 4. The financial statements appear to reflect year to date amounts as of 7/31/11, rather than for the 12 months ending 7/31/11. Confirm which time frame the statements are for. If it is not for the 12 months ending 7/31/11, provide revised Exhibits 3 and 4.

*Response: Shelby will review the documents and if they are not for 12 months ending 7/31/11, revised documents will be submitted.*

6. Explain the relationship of the loan numbers listed on Exhibit 2, page 1 of 3, to the loan numbers listed on Exhibit 7, Page1 of 8.

*Response: Each loan amount shown in Exhibit 7 represents each draw made on the loan.*

7. On Exhibit 7, page 2 of 8, the current CFC total long term debt outstanding in the amount of \$3,536,244 does not agree with the amount of \$3,383,929 on Exhibit 2, page 2 of 3, or Exhibit 4, page 3 of 3. Explain.

*Response: Shelby made a loan payment in August 2011 and it is reflected in Exhibit 2. In Exhibit 7, CFC used the end of May numbers.*

8. Refer to the text at the bottom of page 2 of 8 of Exhibit 7. Do the last two sentences mean that the rates indicated in the application are not locked in?

*Response: No. The interest rates are locked in.*

9. As of what date was Exhibit 7 prepared for Shelby?

*Response: Shelby stated it was not sure.*

10. What is the latest date by which Shelby needs an order in this case?

*Response: November 11, 2011.*

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SHELBY ENERGY	)	
COOPERATIVE, INC. FOR AUTHORIZATION	)	
TO BORROW UP TO \$3,300,000 FROM THE	)	
NATIONAL RURAL UTILITIES COOPERATIVE	)	CASE NO.
FINANCE CORPORATION TO EXECUTE THE	)	2011-00391
SECURED PROMISSORY NOTE AND LOAN	)	
AGREEMENT, AND TO PREPAY RURAL	)	
UTILITIES SERVICE 5% NOTES OF THE SAME	)	
AMOUNT	)	

**SIGN IN**

October 21, 2011

PERSON

REPRESENTING

JEFF JOHNSON	PSC
Ron Handziak	PSC - FA
Enol K Wozniak	PSC - FA
Steve Bailey	
Quang Nguyen	PSC
Chris Whelan	PSC
Debbie Martin	Shelby Energy via Phone
Denise Hume	" " " "
Donald Prather	" " " "