

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND VALLEY )  
ELECTRIC, INC. FOR AUTHORIZATION TO )  
BORROW \$4,058,113 FROM THE NATIONAL ) CASE NO.  
COOPERATIVE SERVICES CORPORATION ) 2010-00378  
(NCSC) AND EXECUTE NECESSARY NOTE )  
AND TO PREPAY RURAL UTILITES SERVICE )  
(RUS) 5 PERCENT NOTES OF THE SAME AMOUNT )

O R D E R

On September 27, 2010, Cumberland Valley Electric, Inc. (“Cumberland Valley”) filed its application for authority to execute notes to National Cooperative Services Corporation (“NCSC”) in the amount of \$4,058,113.<sup>1</sup> By letter dated October 1, 2010, the Commission notified Cumberland Valley that all filing requirements were satisfied and the application was considered filed as of September 27, 2010.

Cumberland Valley intends to use the proceeds from the NCSC loan to refinance and discharge part of its indebtedness to the Department of Agriculture, Rural Utilities Service (“RUS”). Cumberland Valley chose NCSC for refinancing over the National Rural Utilities Cooperative Finance Corporation (“CFC”) and ACB Co Bank because it provided the greatest interest savings.<sup>2</sup> Due to the lower interest rate offered by NCSC,

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<sup>1</sup> Application at ¶ 7.

<sup>2</sup> Response to the Commission Staff’s First Data Request dated October 25, 2010, item 1(b).

Cumberland Valley projects a cash-flow savings of approximately \$462,123 over the life of the loan.<sup>3</sup>

As of August 31, 2010, Cumberland Valley's outstanding balance of RUS debt was \$7,711,975.37,<sup>4</sup> which is made up of debt with interest rates varying from .37 percent to 5.375 percent. Cumberland Valley also has outstanding long-term debt with CFC in the amount of \$3,537,321.69 at interest rates varying from 3.5 percent to 6.45 percent.<sup>5</sup> Finally, Cumberland Valley has outstanding debt with the Federal Financing Bank in the amount of \$26,197,379.23 at a .152 percent interest rate.<sup>6</sup>

Of its total outstanding RUS debt, Cumberland Valley proposes to refinance \$4,058,113 under the NCSC program.<sup>7</sup> Cumberland Valley has fixed this amount with NCSC through November 1, 2010.<sup>8</sup> Cumberland Valley requested expedited approval in order to close the refinancing offer prior to that date.<sup>9</sup>

Cumberland Valley proposes to execute one note in conjunction with the borrowing from NCSC for differing maturity periods that are approximately equal to the debt being refinanced. The note will require a different fixed rate of interest for each

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<sup>3</sup> Application, Exhibit 2, Attachment B, page 8.

<sup>4</sup> Application, Exhibit 1, Attachment A, page 1.

<sup>5</sup> Application, Exhibit 1, Attachment A, page 2.

<sup>6</sup> Application, Exhibit 1, Attachment A, page 3.

<sup>7</sup> This is the amount of Cumberland Valley's five percent RUS debt being refinanced.

<sup>8</sup> Cumberland Valley, by hand-delivered letter dated Oct. 27, 2010, advised that the offer was available through Nov. 1, 2010 instead of Dec. 1, 2010, as was stated in the cover letter to the original September 27, 2010 Application.

<sup>9</sup> Application, Cover Letter.

year of the loan. The rates will range from a one-year rate of 1.5 percent to a 13-year rate of 4.40 percent.<sup>10</sup> NCSC estimates the effective rate to be 3.54 percent and the note will be amortized for a period of 13 years.<sup>11</sup> The average remaining life of the RUS notes selected for repayment is 13 years. Cumberland Valley provided a cash-flow analysis based on the \$4,058,113 amount that indicates it could save \$462,123 over the life of the loan.<sup>12</sup>

The Commission has reviewed the proposed refinancing and finds Cumberland Valley's proposal to be reasonable. Cumberland Valley has determined that it can refinance a portion of its RUS five percent fixed-rate debt at a lower effective interest rate and experience cash-flow savings over the period of the loan. The Commission commends Cumberland Valley for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

The final amounts of the RUS payoff and new loan will not be known until the refinancing transaction is finalized. Therefore, Cumberland Valley should provide the Commission with the exact amount of the new NCSC loan within 10 days of finalizing the transaction. In addition, Cumberland Valley should provide an updated version of Exhibit 2, Attachment B, pages 7 and 8, of its application reflecting the cash-flow analyses of the new NCSC loan.

In recognition of the volatility of interest rates and the potential impact that changes in the interest rates could have on the benefits of the NCSC refinancing

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<sup>10</sup> Application at ¶ 7.

<sup>11</sup> Id.

<sup>12</sup> Application, Exhibit 2, Attachment B, page 8.

program, the Commission has expedited the processing of Cumberland Valley's application.

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The loan from NCSC is for lawful objects within the corporate purposes of Cumberland Valley, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Cumberland Valley should execute its note as security for the proposed loan in the manner described in its application.

3. Within 10 days of finalizing the refinancing transaction, Cumberland Valley should notify the Commission in writing of the exact amount of the new NCSC loan. Cumberland Valley should include with the notice an updated version of Exhibit 2, Attachment B, pages 7 and 8, from its application reflecting the savings based on the actual amount of the new NCSC loan.

4. Within 10 days of the execution of the new NCSC loan documents, Cumberland Valley should file with the Commission three copies of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in its application.

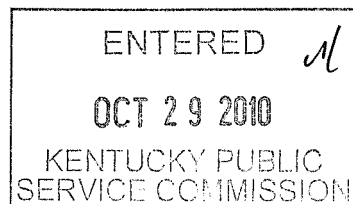
6. The terms and conditions of the new NCSC loan should be consistent with the NCSC refinancing program as described in Cumberland Valley's application.

IT IS THEREFORE ORDERED that:

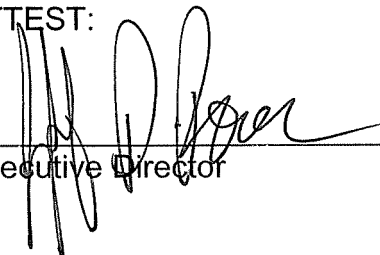
1. Cumberland Valley is authorized to borrow up to \$4,058,113 from NCSC, but no more than the total RUS payoff for the five percent debt being refinanced. The loan maturity dates and interest rates shall be in accordance with the NCSC refinancing program as described in Cumberland Valley's application.
2. Cumberland Valley shall execute the NCSC loan documents as authorized herein.
3. Cumberland Valley shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.
4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission



ATTEST:

  
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Executive Director

Honorable W. Patrick Hauser  
Attorney At Law  
P. O. Box 1900  
Barbourville, KY 40906