

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND VALLEY)	
ELECTRIC, INC. FOR AUTHORIZATION TO)	CASE NO.
BORROW \$2,024,000 FROM COBANK AND TO)	2018-00256
PREPAY USDA RURAL UTILITIES SERVICE)	
NOTES OF THE SAME AMOUNT)	

ORDER

On July 25, 2018, Cumberland Valley Electric, Inc. (Cumberland Valley), tendered its application seeking Commission authority to execute a note to CoBank, ACB (CoBank) in an amount up to \$2,024,000.00.¹ By letter dated August 2, 2018, the Commission notified Cumberland Valley that its application was rejected as deficient. Cumberland Valley submitted information on August 6, 2018, addressing the deficiency and the Commission accepted the application for filing on August 10, 2018. Cumberland Valley responded to one request for information on August 27, 2018. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Cumberland Valley intends to use the proceeds from the proposed CoBank loan to refinance and discharge approximately \$2,024,000.00 of its outstanding indebtedness to the Rural Utilities Service (RUS).² The refinancing of the RUS secured debt is

¹ Application, paragraph 6.

² *Id.*

authorized pursuant to 7 C.F.R. Part 1786.³ The outstanding RUS balance consists of fixed-rate debt with interest rates of 5.000 percent and 5.375 percent⁴ and variable rate debt with an interest rate of 0.875 percent. Cumberland Valley proposes to refinance two RUS loans in the aggregate amount of \$2,023,761.90⁵ with a CoBank note in the same amount at a fixed interest rate of 4.29.⁶ CoBank's offer to refinance the RUS notes expires after October 31, 2018.⁷ A letter from RUS approving the refinancing was filed with the application.⁸ Cumberland Valley has requested a decision on or before September 10, 2018, in order for Cumberland Valley to close the loan by CoBank's closing date.⁹

The proposed CoBank note will have a principal repayment tenor of 13 years, which is seven months shorter than the maturity date of the RUS notes being refinanced.¹⁰ Cumberland Valley stated that it will not incur any fees to prepay the RUS loans or to close the CoBank loan.¹¹ Cumberland Valley estimates it will incur attorney fees of \$5,000 to close the loan and fulfill regulatory, RUS, and CoBank requirements.¹²

³ *Id.*, Exhibit 1, page 2 of 9.

⁴ *Id.*, Exhibit 3, page 4 of 4.

⁵ *Id.*, Exhibit 2, page 3 of 11.

⁶ *Id.*, Exhibit 2, page 2 of 11.

⁷ *Id.*, paragraph 9.

⁸ *Id.*, Exhibit 1, page 9 of 9.

⁹ *Id.*, paragraph 9.

¹⁰ *Id.*, paragraph 7.

¹¹ *Id.*

¹² Cumberland Valley's Response to Commission Staff's First Request for Information (Staff's First Request), item 4.

Cumberland Valley provided a cash flow analysis which indicates that the refinancing would save \$166,543.61 over the life of the proposed loan, resulting in a positive net present value cash flow of \$101,446.45.¹³

The Commission has reviewed the proposed refinancing and finds Cumberland Valley's proposal to be reasonable due to the lower effective interest rate and cash-flow savings Cumberland Valley would see 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 the new CoBank 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 CoBank loan within ten days of finalizing the transaction. In addition, Cumberland Valley should provide an updated version of the response to Staff's First Request, Item 1c, reflecting the cash-flow analysis of the new CoBank loan.

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

1. The proposed loan from CoBank 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.

¹³ Cumberland Valley's Response to Staff's First Request, Item 1.c.

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

3. Within ten days of finalizing the refinancing transaction, Cumberland Valley should notify the Commission in writing of the exact amount of the new CoBank loan. Cumberland Valley should include with the notice an updated version of Staff's First Request, Item 1c, reflecting the savings based on the actual amount of the new CoBank loan and legal fees.

4. Within ten days of the execution of the new CoBank loan documents, Cumberland Valley should file with the Commission one copy in paper medium and an electronic version of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Cumberland Valley's application.

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

IT IS THEREFORE ORDERED that:

1. Cumberland Valley is authorized to borrow from CoBank up to \$2,024,000.00, but no more than the total amount needed to pay off the RUS notes proposed to be refinanced as identified in the application at an interest rate of 4.29 percent. The loan maturity date and interest rate shall be in accordance with the CoBank refinancing program as described in Cumberland Valley's application.

2. Cumberland Valley shall execute the CoBank 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 shall reference this case number and shall be retained in the post-case correspondence file.

5. This case is hereby closed and will be removed from the Commission's docket.

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.

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By the Commission



ATTEST:


Executive Director

Case No. 2018-00256

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