

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF OWEN COUNTY RURAL)
ELECTRIC COOPERATIVE CORPORATION FOR)
THE AUTHORIZATION TO CONVERT CERTAIN) CASE NO. 89-156
NRUCFC NOTES TO A FIXED RATE)

O R D E R

On July 10, 1989, the Commission ordered Owen County Rural Electric Cooperative Corporation ("Owen County") to file additional information in support of its application seeking approval to convert certain loans with the National Rural Utilities Cooperative Finance Corporation ("CFC") from the variable interest rate option currently in effect to the fixed interest rate option. Owen County filed its responses on July 19, 1989. The Commission has reviewed the information and finds that Owen County's request to convert is not clearly supported by the analysis it has filed. The stated reasons for conversion, at this time, do not adequately address all of the issues which must be considered when converting to a different interest rate option. The Commission is required by KRS 278.300(2) to dispose of the application within 60 days of its filing unless good cause exists to continue the application. The Commission finds that it cannot dispose of the application until it has obtained and reviewed additional information.

The Commission also finds that Owen County shall file the original and 10 copies of the following information with this

Commission, with a copy to all parties of record, within 10 days from the date of this Order. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. Provide the CFC variable and fixed interest rates in effect for each month from January 1985 through December 1988.

2. Explain in detail why the use of an internal rate of return model which assumes that variable interest rates will either steadily decrease or increase is an accurate means of analyzing whether Owen County should convert its CFC loans to the fixed interest rate option.

3. Explain what Owen County's expectation is concerning interest rates over the next few years. Will rates be increasing or decreasing?

4. Explain whether Owen County based its decision to convert these loans on the results of any of the scenarios filed in Item 2(a), the response to the Commission's Order of July 10, 1989.

5. Owen County has stated that the main objective in converting to a fixed rate was to stabilize the cost of funds and avoid the risk of rising interest rates which would adversely affect cash flows and the cost of borrowed funds. Explain in detail whether Owen County has evaluated the risk of being committed to a fixed rate in a period of declining interest rates.

6. In the Commission's final Order in Case No. 10045,¹ Owen County was required to analyze all future refinancing options in a manner that clearly reflects the costs and/or savings associated with such options. The analysis filed by Owen County in this case does not clearly indicate there are savings associated with the conversion to the fixed interest rate option. In fact, several of the filed scenarios support the position that the interest rates should remain variable. Explain in detail how Owen County has complied with the requirements the Commission outlined in Case No. 10045.

IT IS THEREFORE ORDERED that:

1. Good cause exists to continue Owen County's application beyond the 60-day period contained in KRS 278.300(2).
2. Owen County shall file the information requested herein within 10 days of the date of this Order.

Done at Frankfort, Kentucky, this 4th day of August, 1989.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director

¹ Case No. 10045, The Application of Owen County Rural Electric Cooperative Corporation to Convert Fixed Loans to Variable Interest Rate, final Order issued November 12, 1987, page 6, paragraph 6.