COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HENDERSON-UNION RURAL ELECTRIC COOPERATIVE CORPORATION TO CONVERT NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION'S NOTE FROM A VARIABLE RATE TO A FIXED RATE	)	CASE NO. 90-024

O R D E R

IT IS ORDERED that Henderson-Union Rural Electric Cooperative Corporation ("Henderson-Union") shall file the original and eight copies of the following information with this Commission, with a copy to all parties of record, within 14 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. Henderson-Union indicated in its response to Item 2(b) of the Commission's March 6, 1990 Order that it had evaluated long-term forecasters' best estimates concerning future interest rates. Identify the forecasters whose estimates were reviewed. Provide either copies of these estimate reports or detailed summaries of what the forecasters estimated concerning long-term interest rates.

2. Based on the responses to the March 6, 1990 Order, it appears that the proposed change in interest rate and loan program is occurring during the repricing period which occurs every seven

years with National Rural Utilities Cooperative Finance Corporation ("CFC") loans.

a. Indicate whether this is an accurate understanding.

b. Provide a copy of the CFC loan agreement section which enables the borrower to change loan program option, as well as interest rate, at the time of the repricing period.

3. In its responses to the March 6, 1990 Order, Henderson-Union indicated that it did not perform any financial analysis to evaluate the projected net savings resulting from the conversion of the CFC loan from the variable to fixed rate program. In earlier cases before the Commission involving loan conversions, the Commission has indicated that such a financial analysis is an integral part of the determination of whether to undertake the loan conversion. Provide a financial analysis based on the forecasters' best estimates concerning future interest rates. The analysis should utilize a present value model approach or an internal rate of return approach. The analysis should reflect the quarterly changes over a period of seven years. The loan outstanding balance as of March 1, 1990 should be used throughout the analysis. The analysis should begin with the first quarter in 1990. Using the evaluations contained in the forecasters' estimates, prepare a present value or internal rate of return analysis reflecting these scenarios:

a. A fixed interest rate of 9.50 percent for the seven year period.

b. A pessimistic expectation concerning variable interest rates for the seven year period, based on the forecasters' estimates reviewed by Henderson-Union.

c. An optimistic expectation concerning variable interest rates for the seven year period, based on the forecasters' estimates reviewed by Henderson-Union.

d. A most-likely expectation concerning variable interest rates for the seven year period, based on the forecasters' estimates reviewed by Henderson-Union.

Include with the scenarios an explanation of all assumptions used in the analysis.

Done at Frankfort, Kentucky, this 6th day of April, 1990.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director