

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF NOLIN RURAL ELECTRIC)	
COOPERATIVE CORPORATION'S REVISION)	CASE NO. 90-064
TO ITS ELECTRIC TARIFFS)	

O R D E R

On October 15, 1992, Nolin Rural Electric Cooperative Corporation ("Nolin") filed an application for a deviation from the Settlement Agreement approved by the Commission's October 31, 1990 Order in this case. Nolin stated that under the Settlement Agreement, the amount of capital credits it was obligated to retire in 1992 totals \$1,032,578. Nolin further stated that it did not currently have available funds with which to pay the capital credits to its members, and in fact owed a deferred power bill to its wholesale power supplier, East Kentucky Power Cooperative, Inc. The deviation requested by Nolin is to defer until March 31, 1993 the payment of the capital credits which under the Settlement Agreement are to be paid by December 31, 1992. Last year Nolin requested, and the Commission granted, a similar deviation to defer the payment of 1991 capital credits.

Under the terms of the Settlement Agreement, Nolin is required to apply total margins in excess of a 1.5 Times Interest Earned Ratio ("TIER") to the retirement of capital credits to its members. In addition, Nolin is required to retire in calendar year 1992 an amount deferred from the 1990 retirement. The Settlement Agreement also requires Nolin to make a good faith effort to reduce its

equity level. The Settlement Agreement provides that Nolin may be relieved of its obligation to retire capital credits only when, due to circumstances beyond its control, the Rural Electrification Administration ("REA") or the National Rural Utilities Cooperative Finance Corporation ("CFC") have suspended or discontinued advancing loan funds to Nolin.

Nolin provided no financial information, workpapers, or calculations to support its request for a deviation. Based on a review of Nolin's monthly reports on file with the Commission, it appears that Nolin does not have adequate cash funds available to make the \$1,032,578 retirement. Nolin's equity level has increased, rather than decreased, since the adoption of the Settlement Agreement. On October 31, 1990, Nolin's equity level was at 61.6 percent; as of August 31, 1992 the equity level was 62.55 percent.

Nolin provided no documentation to indicate that the REA or CFC had suspended or discontinued advancing loan funds to Nolin. In fact, in Case No. 91-252¹ the Commission approved the construction and financing of Nolin's most recent two-year work plan. On December 6, 1991, the Commission approved a \$2,000,000 loan for Nolin from the Federal Financing Bank ("FFB"). On July

¹ Case No. 91-252, Application of the Nolin Rural Electric Cooperative Corporation for Authority to Borrow the Sum of \$2,000,000.00 from the Federal Financing Bank of the United States of America, and the Additional Sum of \$1,441,000.00 from the Rural Electrification Authority, and the Additional Sum of \$617,340.00 from the National Rural Utilities Cooperative Finance Corporation; and to Execute Notes for Said Amounts.

30, 1992, Nolin filed copies of correspondence received from REA and CFC approving loans related to the current two-year work plan. On August 20, 1992, the Commission approved the \$1,031,633 loan from CFC but no action was taken on the \$2,360,000 loan from REA because it is exempt under KRS 278.300(10).

On November 4, 1991, Nolin filed a petition for a deviation from the Settlement Agreement, requesting relief from the obligation to pay by December 31, 1991, \$1,637,000 in capital credits until such time as its board of directors determined that it is financially able to do so. On December 20, 1991, the Commission granted a deviation to the limited extent that the 1991 capital credit retirements would be made no later than March 31, 1992. Nolin was ordered to file a payment schedule setting forth the amounts and dates of its 1991 capital credit retirement and identify the source of the funds used. In its response of January 21, 1992, Nolin stated that it would pay the \$1,637,000 in capital credits using \$1,300,000 from its \$2,000,000 FFB loan with the balance coming from a partial deferral of its power bill for the month of March 1992. However, Nolin indicated in its December 1, 1992 response to the Commission's November 12, 1992 Order, that it had deferred a power bill and did not draw down any funds from the FFB loan.

In the October 15, 1992 application, Nolin states that it recently closed its loan with FFB and would draw down the loan funds, using approximately \$1,800,000 of the total \$2,000,000 to pay its deferred power bill. However, in its December 1, 1992

response to the November 12, 1992 Order, Nolin indicated that the full \$2,000,000 is still available from FFB.

The Commission is concerned that Nolin is again seeking to deviate from the Settlement Agreement. Nolin does not appear to have seriously addressed the provision of the Settlement Agreement relating to equity levels. Nor does Nolin appear to have utilized available loan funds, which has negatively impacted its current ratio. The current ratio compares the total current and accrued assets with the total current and accrued liabilities. If Nolin would draw down funds from its FFB, REA, and CFC loans, it could improve its current ratio, lower its equity level, pay off the deferred power bill, pay the 1992 capital credit retirement, and increase its general cash funds.

Based on the record, and being advised, the Commission finds that Nolin should not be allowed to deviate from the Settlement Agreement as it has requested. Nolin should utilize its available long-term debt financing as described herein to improve its overall financial condition. However, the Commission is aware that, given the time necessary to request loan funds and process the capital credit retirement, Nolin would not be able to make its 1992 calendar year retirement before December 31, 1992. Nolin should therefore be allowed to delay the retirement to allow for processing time, but the retirement payment should be made no later than January 31, 1993. The Commission also advises Nolin that any future applications to deviate from the Settlement Agreement should be filed no later than 3 months before the end of the calendar

year. Such application should be fully documented, including calculations of the amount to be retired and thorough explanations to support the deviation sought.

IT IS THEREFORE ORDERED that:

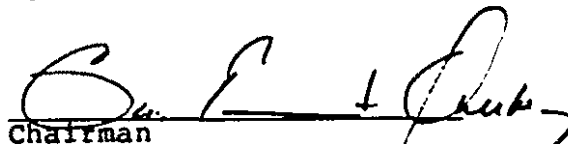
1. Nolin's request to deviate from the October 31, 1990 Order which approved the October 11, 1990 Settlement Agreement be and it hereby is denied.

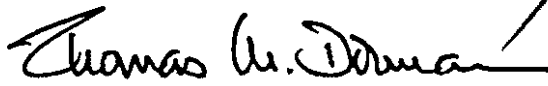
2. Nolin be and it hereby is granted a one month delay, from December 31, 1992 to January 31, 1993, to pay its 1992 capital credit retirements.

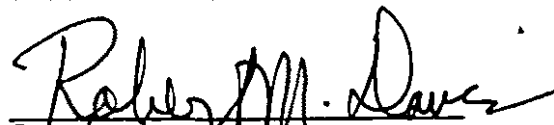
3. Within 60 days from the date of this Order, Nolin shall file information describing how it funded the payment of the 1992 capital credit retirement.

Done at Frankfort, Kentucky, this 18th day of December, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director