

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MEADE COUNTY RURAL)	
ELECTRIC COOPERATIVE CORPORATION FOR)	
APPROVAL OF THE CONVERSION OF CFC NOTES)	CASE NO.
9005, 9007, 9009, 9011, 9015, 9016, 9017, 9019)	98-091
AND 9020 FROM THE VARIABLE TO FIXED RATE)	
LOANS)	

O R D E R

On February 11, 1998, Meade County Rural Electric Cooperative Corporation ("Meade County") filed a request that the Commission approve the conversion of certain loans approved in its prior Orders entered in Case Nos. 6444, 6805, 7103, 7485, 8431, 9634, 89-119, 91-064 and 94-018¹ to authorize the conversion from a variable to a fixed interest rate for National Rural Utilities Cooperative Finance Corporation ("CFC") Loan Nos. 9005, 9007, 9009, 9011, 9015, 9016, 9017, 9019 and 9020. Meade County is requesting approval after the fact for the conversions since the loans were converted by CFC on January 13, 1998 subject to Commission approval. These loan conversions were approved by Meade County's Board of Directors on January 29, 1998.

¹ Case No. 6444, Order dated January 30, 1976; Case No. 6805, Order dated June 7, 1977; Case No. 7103, Order dated June 5, 1978; Case No. 7485, Order dated July 30, 1979; Case No. 8431, Order dated July 29, 1983; Case No. 9634, Order dated September 16, 1986; Case No. 89-119, Order dated August 11, 1989; Case No. 91-064, Order dated March 17, 1992; Case No. 94-018, Order dated January 28, 1994.

When converting to a different interest rate option, CFC requires the payment of a conversion fee unless the loans have reached the end of the term. The loans Meade County is seeking to convert are at the renegotiation period and are not subject to the conversion fee. The terms of the loans provide for a fixed interest rate for 4, 5, or 6 years, after which, they can be repriced at various options.

Meade County stated in its application that its review indicates that there are potential savings and interest rate stability by converting from the variable rate to the fixed rate. The billing cycle for these loans was February 1, 1998. The variable interest rate applicable to these loans, at the time of conversion, was 6.55 percent. Meade County has converted the loans to a fixed interest rate of 6.45 percent for a 4-year period, 6.50 percent for a 5-year period, and 6.55 percent for a 6-year period. When converting to a fixed rate, CFC offers a performance discount which lowers the effective cost. For example, Loan No. 9007, for a 5-year period with a fixed rate of 6.5 percent, after factoring in a performance discount of .125 percent, results in an effective cost of 5.871 percent.

An informal conference was held on April 20, 1998. Meade County provided an analysis evaluating the savings between the variable and fixed interest rate for each loan. By converting to a fixed interest rate, Meade County would save \$141,764 in interest for the remaining term of the loans.

In recent years the Commission has approved financing giving the cooperative the option of selecting the interest rate option which results in the lowest cost of money to the cooperative at the time the funds are first drawn down. These orders further provided that refinancing could occur at the discretion of the cooperative under the terms of the financial arrangements with the lender. Loans approved in Case Nos. 94-018, 91-064, 89-119 and

9634 were approved under such arrangements and do not require Commission approval to convert. The other loans were approved for fixed terms and conditions and provision for conversion at the discretion of the cooperative was not included in the orders approving the financings. The conditions under which the converted loans will operate are the same as other CFC loans currently approved by the Commission. These conditions provide for the cooperative to reprice loans at various periods without conversion fees. The Commission is of the opinion that the cooperative should be able to take advantage of these options without further orders provided that the interest rate program selected results in the lowest cost of money to the cooperative. Therefore, the loan conversion approvals in this case should provide the authorization accorded other loans.

Meade County repriced its loans which are the subject of this proceeding prior to obtaining Commission approval. CFC made the repricing contingent upon Commission approval and stated in the letter approving the repricing that if the Commission did not approve the conversions, it would reinstate the previous rate retroactively. In the event there was a differential in the interest rate, Meade County would have to remit the difference. In this instance the interest rate has increased since the time that Meade County exercised its option. Under the arrangements with CFC, Meade County would not be liable for any increased cost above what it would have incurred if it had not exercised its option prior to obtaining Commission approval. The Commission is concerned about the fact that Meade County refinanced its loans prior to Commission approval and is also concerned about the regulatory procedure which requires prior Commission approval to exercise loan options. The Commission has granted blanket approval for CFC loans authorized in recent years, which allows the cooperative to exercise repricing options. The

Commission likewise believes that this authority should be extended to the loan conversions being approved in this case. It should be pointed out that Meade County will still have CFC loans which do not provide for changes without prior Commission approval. If Meade County wants to exercise repricing options on any of those loans, it should file an application prior to the repricing date in order to obtain prior Commission approval in the future.

Based upon Meade County's analysis, the conversions of the loans should result in interest savings and should be converted as requested.

IT IS THEREFORE ORDERED that:

1. The Commission's Orders entered in Case Nos. 6444, 6805, 7103, 7485 and 8431 are modified to authorize the conversion from a variable to a fixed rate program for CFC Loan Nos. 9005, 9007, 9009, 9011 and 9015.
2. Meade County shall file all documents pertaining to the conversions.
3. All other provisions of the Commission's Orders entered in Case Nos. 6444, 6805, 7103, 7485, 8431, 9634, 89-119, 91-064 and 94-018 shall remain in full force and effect.

Done at Frankfort, Kentucky, this 2nd day of June, 1998.

PUBLIC SERVICE COMMISSION

B. J. Helton
Chairman

E. J. [Signature]
Vice Chairman

Ray W. [Signature]
Commissioner

ATTEST:

[Signature] C. Helton
Executive Director