

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FARMERS RURAL ELECTRIC)	
COOPERATIVE CORPORATION FOR AUTHORIZATION)	
TO BORROW \$1,245,290 FROM THE NATIONAL RURAL)	CASE NO.
UTILITIES COOPERATIVE FINANCE CORPORATION)	2010-00219
AND EXECUTE NECESSARY NOTE AND TO PREPAY)	
RURAL UTILITIES SERVICE'S 5 PERCENT NOTES OF)	
THE SAME AMOUNT)	

O R D E R

On June 1, 2010, Farmers Rural Electric Cooperative Corporation ("Farmers") filed its application for authority to execute a note to National Rural Utilities Cooperative Finance Corporation ("CFC") in the amount of \$1,245,290.¹ By letter dated June 9, 2010, the Commission notified Farmers that its refinancing application was rejected as deficient because it did not include the information necessary to satisfy the filing requirements contained in 807 KAR 5:001, Sections 6(6) and 11(2)(b).

In response to the Commission's June 9, 2010 deficiency letter, Farmers provided the cited information on June 21, 2010. The Commission accepted the information and the application was deemed filed as of June 21, 2010.

Farmers intends to use the proceeds from the CFC loan to refinance and discharge part of its indebtedness to the Rural Utilities Service ("RUS"). Due to the relatively lower interest rates offered by CFC, Farmers projects a lifetime cash flow savings of approximately \$45,114 over the life of the loan.

¹ Application at ¶ 7.

As of April 30, 2010, Farmers' outstanding balance of RUS debt was \$7,872,542.² The outstanding RUS balance consists of debt with interest rates varying from 4.12 percent to 5.12 percent. Farmers also has outstanding long-term debt with CFC and Federal Financing Bank ("FFB"). Farmers' outstanding balance of CFC debt is \$3,685,663, with interest rates varying from 6.75 percent to 6.80 percent.³ Farmers' outstanding balance of FFB debt is \$30,555,074, with interest rates varying from 3.406 percent to 5.617 percent.⁴ The application does not identify whether the outstanding loans' interest rates are fixed or variable.

Of its total outstanding RUS debt, Farmers proposes to refinance nine RUS loans in the aggregate amount of \$1,245,290 under the CFC program.⁵ Farmers has fixed this amount with CFC through August 22, 2010.⁶ Farmers proposes to execute one note with terms ranging from one to eight years that will approximate the maturity of the RUS debt being refinanced.⁷ The note will require a different fixed interest rate for each of the years one through eight. At the time of the application, the fixed interest rates ranged from a one-year rate of 2.55 percent to an eight-year rate of 4.70 percent.⁸

² Application, Exhibit 1, Attachment A, page 1 of 3.

³ Application, Exhibit 1, Attachment A, page 2 of 3.

⁴ Application, Exhibit 1, Attachment A, page 3 of 3.

⁵ Application, Exhibit 2, Attachment B, page 1 of 6. These are 5.0 percent loans.

⁶ Application, Exhibit 2, Attachment B, page 2 of 6. Because it has fixed the amount for the CFC loan, Farmers expects the actual payoff to be very close to \$1,245,290.

⁷ Application at ¶ 7.

⁸ Application, Exhibit 2, Attachment B, page 1 of 6.

Farmers provided a cash flow analysis based on refinancing \$1,245,290 that indicates it could save \$45,411 over the life of the loan.⁹

At an informal conference on August 3, 2010, Farmers informed Staff that the interest rates offered by CFC can change daily, and that the then-current rates were lower than the rates stated in the application. Farmers will have the ability to convert the interest rate from fixed to variable or variable to fixed during the term of the loan provided that it promptly pays the invoiced amount for any applicable conversion fee calculated by CFC.

The Commission has reviewed the proposed refinancing and finds Farmers' proposal reasonable. Farmers has determined that it can refinance a portion of its RUS five percent fixed-rate debt at a lower effective interest rate and experience cash flow savings over the period of the loan. The Commission commends Farmers 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 CFC loan will not be known until the refinancing transaction is finalized. Therefore, Farmers should provide the Commission with the exact amount of the new CFC loan within 10 days of finalizing the transaction. In addition, Farmers should provide an updated version of Exhibit 2, Attachment B, pages 2 through 6, of its application reflecting the cash flow analysis of the new CFC loan.

⁹ Application, Exhibit 2, Attachment B, page 4 of 6.

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

1. The loan from CFC is for lawful objects within the corporate purposes of Farmers, 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.

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

3. Within 10 days of finalizing the refinancing transaction, Farmers should notify the Commission in writing of the exact amount of the new CFC loan. Farmers should include with the notice an updated version of Exhibit 2, Attachment B, pages 2 through 6 from its application reflecting the savings based on the actual amount of the new CFC loan.

4. Within 10 days of the execution of the new CFC loan documents, Farmers should file with the Commission three copies of the loan documents.

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

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

IT IS THEREFORE ORDERED that:

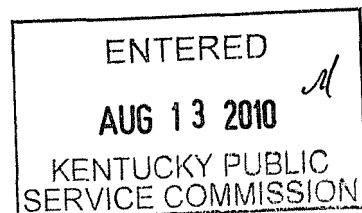
1. Farmers is authorized to borrow up to \$1,245,290 from CFC, but no more than the total amount needed to pay off the 5.0 percent RUS notes proposed to be refinanced as identified in the application. The loan maturity dates and interest rates

shall be in accordance with the CFC refinancing program as described in Farmers's application.

2. Farmers shall execute the CFC loan documents as authorized herein.
3. Farmers 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 findings 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

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.

By the Commission



ATTEST:



Executive Director

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