

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| APPLICATION OF SOUTH KENTUCKY RURAL |) | |
| ELECTRIC COOPERATIVE CORPORATION FOR |) | |
| AUTHORIZATION TO BORROW \$10,074,440 |) | CASE NO. |
| FROM NATIONAL RURAL UTILITIES |) | 2010-00355 |
| COOPERATIVE FINANCE CORPORATION |) | |
| AND EXECUTE NECESSARY NOTE AND TO |) | |
| PREPAY RURAL UTILITIES SERVICE 5 PERCENT |) | |
| NOTES OF THE SAME AMOUNT |) | |

O R D E R

On September 7, 2010, South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") filed its application for authority to execute notes to National Rural Utilities Cooperative Finance Corporation ("CFC") in the amount of \$10,074,440.¹ By letter dated September 14, 2010, the Commission notified South Kentucky that all filing requirements were satisfied and the application was considered filed as of September 7, 2010.

South Kentucky 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 lower interest rate offered by CFC, South Kentucky projects a lifetime cash flow savings of approximately \$1,169,943 over the life of the loan.²

¹ Application at ¶ 7.

² Application, Exhibit 2, Attachment B, page 1.

As of June 30, 2010, South Kentucky's outstanding balance of RUS debt was \$117,213,080,³ which is made up of debt with interest rates varying from 3.46 percent to 5.78 percent. South Kentucky also has outstanding long-term debt with CFC in the amount of \$9,661,612 at interest rates varying from 4.5 percent to 6.7 percent.⁴ Finally, South Kentucky has outstanding debt with the city of Monticello, Kentucky in the amount of \$4,106,667 at a 4.75 percent interest rate.⁵

Of its total outstanding RUS debt, South Kentucky proposes to refinance \$10,074,440 under the CFC program.⁶ South Kentucky has fixed this amount with CFC through September 30, 2010. South Kentucky requested expedited approval in order to close the refinancing offer by September 30, 2010.⁷

South Kentucky proposes to execute one note in conjunction with the borrowing from CFC for differing maturity periods that are approximately equal to the debt being refinanced. The note will require a different fixed rate of interest for each year of the loan. The rates will range from a 1-year rate of 2.1 percent to a 14-year rate of 4.55 percent.⁸ CFC estimates the effective rate, after payment of the patronage capital to South Kentucky, to be 3.67 percent, and the note will be amortized over a period of 14

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

⁴ Id.

⁵ Id.

⁶ This is the amount of SKRECC's five percent RUS debt being refinanced.

⁷ Application Exhibit 2, Attachment B, page 2.

⁸ Application at ¶ 7 and Informal Conference on September 15, 2010.

years.⁹ The average remaining life of the RUS notes selected for repayment is 14 years. South Kentucky provided a cash flow analysis based on the \$10,074,440 amount that indicates it could save \$1,169,943 over the life of the loan.¹⁰

The Commission has reviewed the proposed refinancing and finds South Kentucky's proposal to be reasonable. South Kentucky 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 South Kentucky for taking advantage of the financing alternatives available, 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, South Kentucky should provide the Commission with the exact amount of the new CFC loan within 10 days of finalizing the transaction. In addition, South Kentucky should provide an updated version of Exhibit 2, Attachment B, Pages 2 through 6 of its application reflecting the cash flow analyses of the new CFC loan.

In recognition of the volatility of interest rates and the potential impact that changes in the interest rates could have on the benefits of the CFC refinancing program, the Commission has expedited the processing of South Kentucky's application.

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

⁹ Application at ¶ 7.

¹⁰ Application, Exhibit 2, Attachment B, page 6.

1. The loan from CFC is for lawful objects within the corporate purposes of South Kentucky, 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. South Kentucky shall 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, South Kentucky shall notify the Commission in writing of the exact amount of the new CFC loan. South Kentucky shall 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, South Kentucky shall file with the Commission three copies of the loan documents.

5. The proceeds from the proposed loan shall be used only for the lawful purposes set out in its application.

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

IT IS THEREFORE ORDERED that:

1. South Kentucky is authorized to borrow up to \$10,074,440, but no more than the total RUS payoff for the five percent debt, from CFC. The loan maturity dates and interest rates shall be in accordance with the CFC refinancing program as described in South Kentucky's application.

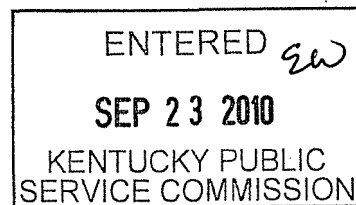
2. South Kentucky shall execute the CFC loan documents as authorized herein.

3. South Kentucky shall comply with all matters set out in Findings 3 through 6 as if they were individually so ordered.

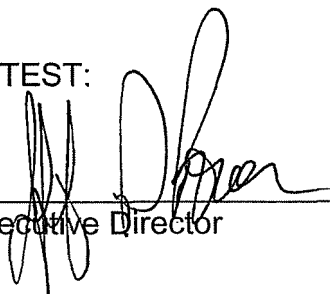
4. Any documents filed in the future pursuant to Findings 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

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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