

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FARMERS RURAL ELECTRIC)	
COOPERATIVE CORPORATION FOR)	
AUTHORIZATION TO BORROW UP TO)	
\$2,671,000 FROM THE NATIONAL RURAL)	CASE NO.
UTILITIES COOPERATIVE FINANCE)	2012-00194
CORPORATION AND TO EXECUTE NECESSARY)	
NOTE TO PREPAY RURAL UTILITIES SERVICE)	
5 PERCENT NOTES OF THE SAME AMOUNT)	

O R D E R

On May 21, 2012 Farmers Rural Electric Cooperative Corporation (“Farmers”) submitted its application for authorization to borrow up to \$2,671,000 and for authority to execute notes to National Rural Utilities Cooperative Finance Corporation (“CFC”) in an amount up to \$2,671,000.¹ Farmers’ application states that it intends to use the proceeds from the CFC loan to refinance and discharge part of its indebtedness to the Rural Utilities Service (“RUS”). Farmers states that it expects the actual payoff to be very close to \$2,544,700, but also indicates that it is possible that the payoff could be a different amount depending on the time required to secure Commission approval and any payments made in the meantime.²

As of April 30, 2012, Farmers’ outstanding balance of CFC debt was \$4,079,024.48.³ The outstanding balance of CFC debt is made up of debt with interest

¹ Application at ¶ 7.

² Application at ¶ 12.

³ Application, Exhibit 2, page 2.

rates ranging from 2.1 percent to 6.8 percent. Farmers has outstanding long-term debt with RUS in the amount of \$5,792,955.80 at interest rates ranging from 4.12 percent to 5.12 percent.⁴ Farmers also has outstanding debt with Federal Financing Bank of \$32,177,943.59 at interest rates ranging from 2.868 percent to 5.617 percent.⁵

Of its total outstanding RUS debt, Farmers proposes to refinance up to \$2,671,000 under the CFC program. Such refinancing of the debt is allowed by RUS pursuant to Farmers' May 1, 2003 Restated Mortgage and Security agreement.⁶ Farmers has this amount fixed with CFC through July 5, 2012.⁷ Farmers has noted that as long as the order approving the refinancing is issued by July 2, 2012, the proposed financing could be closed by July 5, 2012.⁸

Farmers proposes to execute a note in conjunction with the borrowing from CFC. The CFC note will require a different fixed interest rate for each year (year 1 through year 12) of the note and will have the same maturity as the RUS notes being refinanced. The rates will range from a 1-year rate of 2.75 percent to a 12-year rate of 4.4 percent. The CFC effective interest rate for the full 12-year term of the note will be 3.66 percent.⁹ Farmers provided a cash flow analysis based on the \$2,544,700 amount that indicates it could save \$374,627 over the life of the loan.¹⁰ The net present value

⁴ Application, Exhibit 2, page 1.

⁵ Application, Exhibit 2, page 3.

⁶ Application at ¶ 11.

⁷ Application, cover letter.

⁸ Telephonic Informal Conference Memorandum, June 12, 2012.

⁹ Application at ¶ 7.

¹⁰ Application at ¶ 14 and Exhibit 7.

of the cash flow savings was provided in response to Staff's Informal Conference Data Request. CFC determined that the effective interest rate would result in a positive net present value cash flow of \$241,895.¹¹

The Commission has reviewed the proposed refinancing and finds Farmers' proposal to be reasonable. Farmers has determined that it can refinance a portion of its RUS 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 7, Pages 2 through 6 of its application reflecting the cash flow for the new CFC loan when it files the exact amount of the next 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 Farmers' application.

The Commission, after consideration of the evidence of record and being otherwise 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

¹¹ See the Response to Commission Staff's Information Request from the Informal Conference ("Staff's Information Request") filed June 11, 2012, Exhibit 1, page 1.

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 7, Pages 2 through 6 from its application, reflecting the savings based on the actual amount of the new CFC loan, and also include the net present value of the cash flow savings in the manner provided in response to Staff's Information Request.

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' application.

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

IT IS THEREFORE ORDERED that:

1. Farmers is authorized to borrow up to \$2,671,000, but no more than the total RUS payoff, from CFC. The loan maturity dates and interest rates shall be in accordance with the CFC refinancing program as described in Farmers' application.

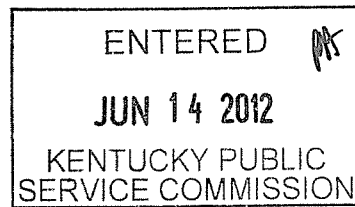
2. Farmers shall execute the CFC loan documents as authorized herein.

3. Farmers 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 paragraphs 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:

Carson D. Brumby
Executive Director

Case No. 2012-00194

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