

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NOLIN R.E.C.C. FOR AN)	
ORDER PURSUANT TO KRS 278.300 AND 807)	
KAR 5:001, SECTION 11 AND RELATED)	CASE NO.
SECTIONS AUTHORIZING THE COOPERATIVE)	2018-00424
TO OBTAIN A LOAN NOT TO EXCEED THE)	
AMOUNT OF \$25,000,000.00 FROM THE)	
NATIONAL RURAL UTILITIES COOPERATIVE)	
FINANCE CORPORATION)	

ORDER

On December 21, 2018, Nolin Rural Electric Cooperative Corporation (Nolin RECC) filed an application for authority to execute notes to National Rural Utilities Cooperatives Finance Corporation (CFC) for \$25,000,000.¹ Commission Staff notified Nolin RECC that its application contained two deficiencies. On January 7, 2019, Nolin RECC filed an amended application that cured the deficiencies, and the application was deemed filed.

Nolin RECC has applied for a \$25,000,000 loan from CFC, which has been conditionally approved if it is executed by February 28, 2019.² The loan will consist of two promissory notes, one for \$10,000,000 and one for \$15,000,000 with both notes having a 40-year maturity date. Each loan will have a five-year draw period for advances and can have an amortization period of up to 35 years, thus the 40-year term.³ The notes

¹ Application, paragraph 5.

² Id. Exhibit 4.

³ Staff's First request for Information Item 2.

will be secured by a first mortgage on all real estate owned by Nolin RECC, as well as a Uniform Commercial Code filing statement.⁴ The proceeds of the loans are to finance the 2018–2022 Construction Work Plan (Construction Plan).⁵ Nolin RECC submitted its 2018–2022 Construction Plan to the Commission for a Staff Opinion as to whether any projects require a Certificate of Public Convenience and Necessity (CPCN), or in the alternative that the projects meet the criteria for the normal course of business.⁶ The Staff Opinion concluded that all projects contained in the 2018–2022 Construction Plan satisfied the ordinary course of business exemption from the CPCN requirement.⁷

The Construction Plan totals approximately \$21.9 million; however, Nolin RECC explained that when it began the pre-approval process with CFC the Construction Plan was approximately \$25 million. Through the Board's approval process, the final Construction Plan was approved for \$21.9 million. Although the pre-approved amount to be loaned from CFC is greater than the approved Construction Plan, Nolin RECC intends to only borrow an amount to satisfy the Construction Plan, and CFC will not advance funds greater than the actual construction.⁸

Interest will be payable at either a fixed or variable rate at the time of the advance, which will be the choice of Nolin RECC. Currently, variable rates are 4.00 percent and

⁴ Application at 5.

⁵ Id.

⁶ Letter from Nolin RECC requesting a Staff Opinion – Construction Work Plan, submitted October 12, 2018.

⁷ PSC Staff Opinion 2018-014, issued November 29, 2018.

⁸ Nolin's Response to Informal Conference submitted February 25, 2019.

fixed rates are 4.80 percent.⁹ Nolin RECC will take into consideration all factors to choose the most favorable rate.¹⁰ 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 Nolin RECC, 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. Nolin RECC shall execute its note as security for the proposed loan in the manner described in its application.

3. Within ten days of finalizing the transaction, Nolin RECC shall notify the Commission in writing of the exact amount and terms of the new CFC loan.

4. Within ten days of the execution of the new CFC loan documents, Nolin RECC should file with the Commission one copy of the loan documents.

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

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

However, the Commission is concerned that the amount of debt to be incurred by Nolin RECC represents an increase of approximately 30 percent of its current long-term

⁹ Staff's First request for Information Item 3.

¹⁰ Staff's First request for Information Item 4.

debt obligations.¹¹ The Commission's concern is heightened when considering Nolin RECC's net plant investment is \$72,590,530.¹²

IT IS THEREFORE ORDERED that:

1. Nolin RECC is authorized to borrow from CFC up to \$25,000,000 as identified in the application, but no more than the amount to satisfy the 2018–2022 Construction Plan. The loan maturity date and interest rate shall be as described in Nolin RECC's application.

2. Nolin RECC shall execute the CFC loan documents as authorized herein.

3. Nolin RECC 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 finding paragraphs 3 and 4 shall reference this case number and shall be retained in the post-case correspondence file.

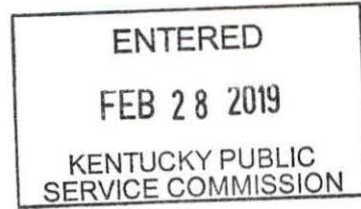
5. This case is hereby closed and will be removed from the Commission's docket.

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.

¹¹ Application, Exhibit 1, shows that Nolin RECC's total long-term debt at \$82,338,727 as of November 30, 2018.

¹² Application, Exhibit 3 at 1.

By the Commission



ATTEST:



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