

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAYSON RURAL)	
ELECTRIC COOPERATIVE CORPORATION)	
FOR AUTHORIZATION TO BORROW)	
\$11,904,064.62 FROM COBANK AND)	CASE NO.
EXECUTE NECESSARY NOTES TO REPAY)	2010-00489
RURAL UTILITIES SERVICES 5 PERCENT NOTES)	
IN THE SAME AMOUNT)	

O R D E R

On December 16, 2010, Grayson Rural Electric Cooperative Corporation (“Grayson”) filed an application seeking authority to execute notes to CoBank, ACB (“CoBank”) in the amount of \$11,904,064.62.¹ By letter dated December 20, 2010, the Commission notified Grayson that its refinancing application was rejected as deficient because it did not include the information necessary to satisfy the filing requirements of 807 KAR 5:001:Sections 6(4), 6(6) and 8(3). By a revised filing deficiency letter dated December 21, 2010, the Commission notified Grayson that its refinancing application was rejected as deficient because it did not include the information necessary to satisfy the filing requirements of 807 KAR 5:001:Sections 6(6) and 8(3).

On December 22, 2010, in response to the Commission’s revised filing deficiency letter, Grayson filed the information cited in the December 21, 2010 letter. The

¹ Application at ¶ 7.

Commission accepted the information and considered the application filed as of December 22, 2010.

Grayson intends to use the proceeds from the CoBank loan to refinance and discharge part of its indebtedness to the Rural Utilities Service ("RUS"). Due to the lower interest rate offered by CoBank, Grayson projects a lifetime cash flow savings of approximately \$1,573,087 over the life of the loan.² Grayson has indicated that CoBank has not approved or issued a commitment for the proposed loan.³

As of September 30, 2010, Grayson's outstanding balance of RUS debt was \$22,960,036.66,⁴ which consists of debt with interest rates varying from 3.17 percent to 5 percent. Grayson also has outstanding long-term debt with National Rural Utilities Cooperative Finance Corporation and others in the amount of \$13,637,361.26 at interest rates varying from 6.4 percent to 6.75 percent for fixed rate debt and variable rates on the remaining debt.⁵

Of its total outstanding RUS debt, Grayson proposes to refinance \$11,904,064.62 under the CoBank program.⁶ Grayson has fixed this amount with CoBank through January 14, 2011. Grayson requested expedited approval in order to

² Application at ¶ 13.

³ Application, Exhibit 5, page 2.

⁴ Application, Exhibit 1, page 1.

⁵ Application, Exhibit 1, page 2.

⁶ This is the amount of Grayson's 5 percent RUS debt.

close the refinancing offer by January 14, 2011.⁷ Grayson proposes to execute one note in conjunction with the borrowing from CoBank at a fixed interest rate of 4.62 percent.⁸ The new CoBank loan would be amortized for a period of 20.43 years.⁹ The average remaining life of the RUS notes selected for repayment is 20.43 years. Grayson provided a cash flow analysis based on the \$11,904,064.62 amount that indicates it could save \$1,573,087 over the life of the loan.¹⁰ The net present value of the cash flow savings was also provided as part of the analysis prepared by CoBank for Grayson. CoBank determined that the fixed interest rate would result in a positive net present value cash flow of \$965,326.¹¹

The Commission has reviewed the proposed refinancing and finds Grayson's proposal to be reasonable. Grayson has determined that it can refinance a portion of its RUS 5-percent fixed-rate debt at a lower effective interest rate and experience cash flow savings over the period of the loan. The Commission commends Grayson for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

⁷ Application, page 1. Because it has fixed the amount for the CoBank loan, Grayson expects the actual payoff to be very close to \$11,904,064.62. In the event the actual payoff of the RUS loan is different, Grayson proposes to adjust any difference through its line of credit agreement with CoBank. See Application at ¶ 8.

⁸ Application, Exhibit 5, page 2. The effective interest rate is 3.86 percent due to patronage refunds.

⁹ Application, Exhibit 5, page 14.

¹⁰ Application, Exhibit 5, page 4.

¹¹ Id.

The final amounts of the RUS payoff and the new CoBank loan will not be known until the refinancing transaction is finalized. Therefore, Grayson should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, Grayson should provide an updated version of Exhibit 5, pages 4 through 15, of its application reflecting the cash flow and the net present value analyses of the cash flow for the new CoBank 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 CoBank refinancing program, the Commission has expedited the processing of Grayson's application.

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

1. The loan from CoBank is for lawful objects within the corporate purposes of Grayson, 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. Grayson 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, Grayson shall notify the Commission in writing of the exact amount of the new CoBank loan. With the notice, Grayson shall include an updated version of Exhibit 5, pages 4 through 15, from its application reflecting the savings based on the actual amount of the new CoBank loan.

4. Within 10 days of the execution of the new CoBank loan documents, Grayson shall file three copies of the loan documents with the Commission.

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

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

IT IS THEREFORE ORDERED that:

1. Grayson is authorized to borrow up to \$11,904,064.62, but no more than the total RUS payoff for the 5-percent debt, from CoBank. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in Grayson's application.

2. Grayson shall execute the CoBank loan documents as authorized herein.

3. Grayson 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 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

ENTERED *mw*
JAN 05 2011
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Don M Combs
Manager Finance & Administration
Grayson R.E.C.C.
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