

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NOLIN RURAL ELECTRIC	)	
COOPERATIVE CORPORATION FOR AN ORDER	)	
PURSUANT TO KRS 278.300 AND 807 KAR 5:001,	)	
SECTION 11 AND RELATED SECTIONS, AUTHORIZING	)	CASE NO.
THE COOPERATIVE TO OBTAIN A LOAN IN THE	)	2012-00192
AMOUNT OF \$50,000,000 FROM THE NATIONAL	)	
RURAL UTILITIES COOPERATIVE FINANCE	)	
CORPORATION	)	

O R D E R

On May 21, 2012, Nolin Rural Electric Cooperative Corporation (“Nolin”) filed its Application for authority to obtain a loan from National Rural Utilities Cooperative Finance Corporation (“CFC”) in the amount of \$50,000,000.<sup>1</sup> By letter dated May 25, 2012, the Commission notified Nolin 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(4), 6(6), 6(9), 11(1)(b), 11(1)(e), and 11(2)(b) .

In response to the Commission’s deficiency letter, on June 4, 2012, Nolin filed an amended application containing the information cited in the May 25, 2012 letter. The Commission accepted the information and the Application was deemed filed as of June 4, 2012.

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<sup>1</sup> Application at page 4.

Nolin intends to use the proceeds from the CFC loan to discharge all of its indebtedness to the Rural Utilities Service (“RUS”) and Federal Financing Bank (“FFB”). As of May 31, 2012, Nolin’s outstanding balance of RUS debt was \$27,701,148.<sup>2</sup> The outstanding RUS balance consists of debt with interest rates ranging from 0.37 percent to 5.19 percent. Nolin’s outstanding balance of FFB debt is \$22,414,639, with interest rates ranging from 0.022 percent to 7.157 percent.<sup>3</sup> Nolin also has outstanding long-term debt with CFC. Nolin’s outstanding balance of CFC debt is \$49,117,565, with interest rates ranging from 2.95 percent to 7.10 percent.<sup>4</sup> The Application does not identify whether the outstanding loans’ interest rates are fixed or variable.

Nolin proposes to pay in full the outstanding RUS and FFB indebtedness owed by Nolin.<sup>5</sup> Nolin has locked in rates for 60 days from June 5, 2012 for approximately \$29,000,000 of the loan funds at interest rates ranging from 2.55 percent to 4.10 percent.<sup>6</sup> There will be a variable rate applicable to the balance of the loan funds.<sup>7</sup> The loan will be evidenced by a series of promissory notes totaling the loan amount with

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<sup>2</sup> Nolin’s Response to Commission Staff’s First Request for Information (“Staff’s First Request”), Item 7, Revised Exhibit 2.

<sup>3</sup> Id.

<sup>4</sup> Id.

<sup>5</sup> Application, ¶ 5, page 3 of 6.

<sup>6</sup> Nolin’s Response to Commission Staff’s Informal Conference request for CFC acknowledgement of locked-in rates.

<sup>7</sup> Nolin’s Response to Staff’s First Request, Item 3.

terms ranging from one to 25 years that will approximate the maturity of the RUS and FFB debt being discharged.<sup>8</sup>

Nolin provided a cash flow analysis based on financing \$50,000,000 which indicates a cash flow savings of \$2,433,998 and a savings of \$499,296 in interest over the life of the loan.<sup>9</sup>

Nolin states that the main reason for discharging its RUS and FFB indebtedness by refinancing with CFC is because of the length of time it takes to obtain RUS approval of loans, which can be up to 15 months, and the difficulty of working with RUS regarding Nolin's Fort Knox operation, difficulties which will be eliminated by refinancing with CFC. CFC can process a loan application in approximately 30 days and has indicated that it could have funds available the day following Commission approval of a loan application. RUS does not consider the income Nolin receives from its Fort Knox contract for purposes of calculating the ratios that Nolin is required to maintain to comply with its RUS loan documents. Accordingly, Nolin has had to obtain annual waivers from RUS to avoid being in default under its RUS loan obligations. Nolin states that RUS has decided to no longer issue those waivers to Nolin. CFC requires only that Nolin maintain a debt service coverage ratio of 1.35 for two out of the most recent three years and will allow Nolin to include the income received from Fort Knox when calculating this ratio.

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<sup>8</sup> Amended Application at ¶¶ 1.(a).

<sup>9</sup> Nolin Response to Staff's First Request, Item 3, Response Exhibit 1.

The Commission has reviewed the proposed refinancing and finds Nolin's proposal reasonable. Nolin has determined that it can refinance its RUS and FFB debt at a lower effective interest rate and experience cash flow savings over the period of the loan while resolving the difficulties it has experienced working with RUS as it relates to the revenue from Nolin's Fort Knox operations.

The final amounts of the RUS and FFB payoff and the new CFC loan will not be known until the refinancing transaction is finalized. Therefore, Nolin should file with the Commission a notice setting forth the exact amount of the new CFC loan within 10 days of finalizing the transaction. In addition, Nolin should file with that notice updated versions of Exhibit 1 from its Amended Application reflecting the loan advance detail and Exhibit 4 from its Amended Application reflecting the cash flow analysis and interest savings of the new CFC loan.

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, 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 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, Nolin should notify the Commission in writing of the exact amount of the new CFC loan and include with the notice updated versions of Exhibit 1 from its Amended Application reflecting the loan

advance detail and Exhibit 4 from its Amended 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, Nolin should file with the Commission two copies of the loan documents.

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

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

IT IS THEREFORE ORDERED that:

1. Nolin is authorized to borrow from CFC up to \$50,000,000, but no more than the total amount needed to pay off the RUS and FFB notes proposed to be discharged as identified in the Application. The loan maturity dates and interest rates shall be in accordance with the CFC refinancing program as described in Nolin's Application.


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

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

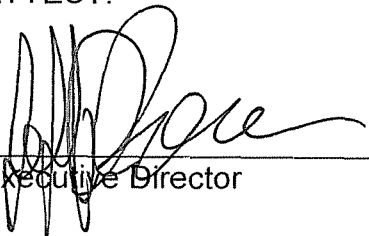
4. Any documents filed in the future pursuant to Findings 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

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

ENTERED   
JUN 22 2012  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
\_\_\_\_\_  
Executive Director

Case No. 2012-00192

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