

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF BIG SANDY RURAL ELECTRIC  
COOPERATIVE CORPORATION FOR AUTHORIZATION  
TO BORROW \$6,500,000 FROM CFC AND  
EXECUTE NECESSARY NOTES AND TO  
PREPAY RURAL UTILITIES SERVICE NOTES  
IN THE SAME AMOUNT.

CASE NO. 2017-00190

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Commission

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**RESPONSE OF BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION TO  
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

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Comes now Big Sandy Rural Electric Cooperative Corporation and attaches hereto its response to the Commission Staff's First Request for Information dated June 15, 2017. The response content is sworn to by Billy O' Brian Frasure, Accounting and Finance Manager of Big Sandy Rural Electric Cooperative Corporation.

RESPECTFULLY SUBMITTED,

BY:



Lance Daniels

Attorney at Law

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Attorney for Big Sandy Rural Electric Cooperative Corp.

### VERIFICATION

The undersigned, Billy O' Brian Frasure, as Accounting and Finance Manager of Big Sandy Rural Electric Cooperation, being duly sworn, states that the responses herein supplied in Case No. 2017-00190 are true and correct to the best of his information, knowledge, and belief formed after reasonable inquiry.

  
BILLY O'BRIAN FRASURE

STATE OF KENTUCKY  
COUNTY OF JOHNSON

Subscribed and sworn to before me by BILLY O' BRIAN FRASURE this 22<sup>nd</sup> day of June, 2017

My commission expires: 6/19/21

  
NOTARY PUBLIC, KENTUCKY STATE AT LARGE

### CERTIFICATE OF SERVICE

Pursuant to 807 KAR 5:001 Section 6, the undersigned certifies that, consistent with 807 KAR 5:001 Section 4(8)d, a copy of this document has been served by First Class US mail upon the following on this 23<sup>rd</sup> day of June, 2017.

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Counsel for Big Sandy RECC



**Big Sandy Rural Electric Cooperative  
Case No. 2017-00190  
Commission Staff's First Request for Information**

Question 1:

Refer to the Application, paragraph 7. Big Sandy states that the request to execute a loan agreement from the National Rural Electric Cooperative Finance Corporation ("CFC") is at a fixed interest rate of 4.04 percent.

a. Provide documentation from CFC supporting this fixed interest rate.

b. Refer to Exhibit 6, page 3 of 3, Big Sandy RECC CFC Loan

Scenario. Twenty loans are listed with fixed interest rates varying from 2.7 percent to 4.3 percent. Reconcile this loan scenario with a fixed interest rate of 4.04 percent.

i. If 4.04 percent is a blended interest rate, provide the calculation for this.

Response:

Please see Excel spreadsheet on USB drive included with this filing.

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**Question 2:**

Refer to the application, Exhibit 2, page 1 of 3. Provide Schedule A ("Rate Lock Option") referenced in the CFC letter.

**Response:**

Please see Excel spreadsheet on USB drive included with this filing.

**Big Sandy Rural Electric Cooperative**  
**Case No. 2017-00190**  
**Commission Staff's First Request for Information**

**Question 3:**

Refer to Exhibit 3, page 3 of 3. Explain why Rural Utility Service ("RUS") note RET -7-1 is included for refinancing, given that the current interest rate of 3.00 percent is lower than the proposed interest rate of 4.04 percent.

**Response:**

RUS does not allow partial refinancing of loans. Therefore, Big Sandy is required to refinance all notes under the loan.

**Big Sandy Rural Electric Cooperative  
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Question 4:

Refer to the application, Exhibit 6.

a. Refer to page 2 of 3.

i. Provide the calculation for the RUS effective interest rate of 4.40 percent in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns fully accessible.

ii. Provide the net present value ("NPV") of the savings, based upon the 3.78 percent effective CFC interest rate, in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns fully accessible.

iii. Provide an explanation of what the Patronage of -0.26 percent represents within the CFC interest rate and how it is calculated.

iv. Provide the NPV of the savings, based upon the 4.40 effective RUS interest rate, in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns fully accessible.

v. Provide this Exhibit in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns fully accessible. If it is necessary to update this exhibit in response to questions contained in this information request, provide the updated version in both paper medium and electronically.

b. Refer to page 3 of 3.

i. Confirm the refinancing of the notes is a series of notes of varying interest rates and lengths of term and not just a single note.

ii. If confirmed, explain why the refinancing of the notes is a series of notes of varying interest rates and lengths of term and not just a single note.

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Response:

a.

- i. Please refer to Excel spreadsheet on USB drive included with this filing.
- ii. Please refer to Excel spreadsheet on USB drive included with this filing.
- iii. Like its cooperative member-owners, CFC returns margins to members in the form of patronage capital. CFC's current policy is to pay 50% of the current year's patronage capital retirement in cash and 50% 25 years later. Patronage capital is allocated to a borrower based on the amount of interest paid on the loan. Based on the CFC interest rates used in the refinance, patronage capital equates to an all-in reduction to the interest rate of 26 basis points.
- iv. Please refer to Excel spreadsheet on USB drive included with this filing.
- v. Please refer to Excel spreadsheet on USB drive included with this filing.

b.

- i. Big Sandy confirms the refinancing of the notes is a series of notes of varying interest rates and lengths of term and not just a single note.
- ii. The refinancing of the notes was prepared as a series of notes because the serial structure generated the most interest savings for Big Sandy RECC.

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Question 5:

Provide an estimate of any fees or expenses that Big Sandy expects it will incur to close the loan with CFC, as well as an estimate of their impact on the NPV of the proposed financing to the extent they are not already reflected.

Response:

Big Sandy will incur no fee in closing the loan with CFC.



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Question 6:

Big Sandy has not requested Commission approval by any certain date.

- a. Provide the closing date requested by CFC.
- b. Provide the date that Big Sandy would need approval in order to close by the CFC closing date.

Response:

- a. The closing date provided by CFC is August 23, 2017.
- b. Big Sandy would need approval by July 31, 2017 in order to close by the CFC closing date.