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March 10, 2006

CERTIFICATE OF SERVICE

RE: Case No. 2005-00493  
Nolin R.E.C.C.

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on March 10, 2006.

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Executive Director

BOD/jc  
Enclosure

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE NOLIN RURAL ELECTRIC )  
COOPERATIVE CORPORATION FOR AN ORDER )  
PURSUANT TO KRS 278.300 AND 807 KAR 5:001, )  
SECTION 11 AND RELATED SECTIONS ) CASE NO.  
AUTHORIZING THE COOPERATIVE TO OBTAIN A ) 2005-00493  
LOAN IN THE AMOUNT OF \$24,000,000.00 FROM )  
THE NATIONAL RURAL UTILITIES COOPERATIVE )  
FINANCE CORPORATION )

O R D E R

On December 2, 2005, Nolin Rural Electric Cooperative Corporation ("Nolin") filed its application for authorization to obtain a loan in the amount of \$24,000,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC"). The proceeds of the loan will be used to finance projects associated with the Demand Side Management and Energy Efficiency Services Modification Agreements ("DSM Contract") between Nolin and the Fort Knox Military Base ("Fort Knox"). Nolin previously was authorized to borrow \$35,000,000 in conjunction with the Fort Knox DSM Contract projects in Case No. 2003-00079,<sup>1</sup> but that loan has been completely drawn down.<sup>2</sup>

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<sup>1</sup> Case No. 2003-00079, The 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 the Cooperative to Borrow an Amount Not to Exceed \$35,000,000 from the National Rural Utilities Cooperative Finance Corporation, final Order dated April 17, 2003.

<sup>2</sup> Response to the Commission Staff's First Data Request dated December 21, 2005, Item 2(a).

The financing provided by the loan will be structured in two tranches. The first tranche will be in the form of interim financing for a period up to 12 months. The second tranche will be permanent financing with a term of 15 years, with the maximum amortization period for each advance of 10 years.<sup>3</sup> The interim financing will convert to permanent financing after all loan approvals have been received, and the face amount of the debt will remain unchanged at the time of conversion. The interim financing will be unsecured, while the permanent financing will be secured by a lien subordination<sup>4</sup> under the Restated Mortgage and Security Agreement between Nolin, CFC, and the Rural Utilities Service ("RUS"). Nolin has submitted the request for the lien subordination to RUS and the request is currently pending.

Fort Knox pays Nolin for the costs of all DSM Contract projects plus a multiplier of 1.05 percent. Prior to each advance on the loan, Nolin may select either a fixed or variable interest rate. During the term of the loan, Nolin can change interest rate options at the time of repricing or can convert to a different interest rate option anytime during the term of the loan, subject to the terms and conditions in the CFC Loan Agreement.<sup>5</sup> For the \$35,000,000 CFC loan, Fort Knox had requested Nolin use the variable interest rate option, which was consistent with the terms of the DSM Contract.<sup>6</sup>

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<sup>3</sup> Id., Item 4.

<sup>4</sup> The lien subordination provides CFC with a first lien on and security interest in any and all revenues received by Nolin in conjunction with the DSM Contract and any subsequent modifications or addendums to the DSM Contract.

<sup>5</sup> Response to the Commission Staff's First Data Request dated December 21, 2005, Item 5, Exhibit 4, pages 9 and 10 of 27.

<sup>6</sup> Case No. 2003-00079, April 17, 2003 Order at 2.

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

1. The loan from CFC in the amount of \$24,000,000 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. The CFC loan is secured by the revenues and reimbursements Nolin receives from Fort Knox under the DSM Contract, as described in this record.

3. When Nolin draws down funds from the CFC loan, it should include in its corresponding monthly financial report to the Commission the current outstanding balance on the CFC loan before the draw down, the amount to be drawn down from the CFC loan, and the interest rate on the amount being drawn down.

4. Nolin should include in its annual financial report to the Commission a separate disclosure on the status of the CFC loan, including the current interest rate and expense for the DSM Contract project loan and the outstanding balance of the loan.

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

6. Within 10 days of its receipt, Nolin should file a copy of the RUS lien subordination with the Commission.

IT IS THEREFORE ORDERED that:

1. Nolin is authorized to borrow \$24,000,000 from CFC for a 15-year period bearing an interest rate as described in the CFC Loan Agreement.

2. Nolin is authorized to secure the loan as described in its application.
3. Nolin shall comply with all matters set out in Findings 3 through 6 as if they were individually so ordered.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities or financing authorized herein.

Done at Frankfort, Kentucky, this 10th day of March, 2006.

By the Commission

ATTEST:



Executive Director