

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 **RECEIVED**

JUN 27 2017

Public Service  
Commission

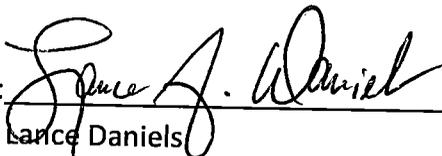
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**RESPONSE OF BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION TO  
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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Comes now Big Sandy Rural Electric Cooperative Corporation and attaches hereto its response to the Attorney General's First Request for Information dated June 16, 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

P.O. Box 1115

225 Main Street

Paintsville, KY 41240

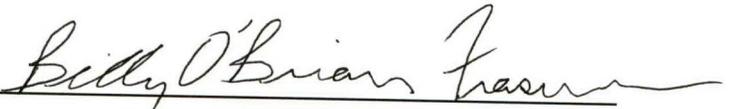
Phone: (606)264-7004

Email: ldanielslawoffice@yahoo.com

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.

Kent A. Chandler  
Rebecca W. Goodman  
Justin M. McNeil  
Assistant Attorneys General  
[Kent.Chandler@ky.gov](mailto:Kent.Chandler@ky.gov)  
[Rebecca.Goodman@ky.gov](mailto:Rebecca.Goodman@ky.gov)  
[Justin.McNeil@ky.gov](mailto:Justin.McNeil@ky.gov)



  
Counsel for Big Sandy RECC

**Big Sandy Rural Electric Cooperative Corporation**  
**Case No. 2017-00190**  
**Attorney General's Initial Request for Information**

Question 1

Refer to Exhibit 3, page 3 of 3 and Commission Staff Request 1-3. Confirm that Loan Number RET-7-1, which is proposed to be refinanced, has an interest rate of 3.00% and a maturity date 2 years longer than the proposed CFC loan agreement.

Response:

RUS Loan Number RET-7-1 currently has a variable interest rate of 0.56%. Cooperative Finance Corporation ("CFC") used the rate of 3% based on the approximate rate Big Sandy would obtain with RUS if this loan were to be converted to a fixed rate.

Yes, the maturity date of Loan Number RET-7-1 is 2 years longer with RUS than it will be with CFC.

**Big Sandy Rural Electric Cooperative Corporation**  
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Question 2

Refer to Exhibit 3, page 1 of 3. Confirm that the board resolution provides for loan amounts, "having a maturity no longer than 25 years." If confirmed, explain Big Sandy's rationale for the proposed CFC notes having a maturity of only 20 years, which is shorter than the RUS notes being refinanced.

Response:

Big Sandy confirms that the resolution provides for loan amounts, "having a maturity no longer than 25 years." Big Sandy's rationale for choosing the 20 year term is that this term provided the most savings to Big Sandy and its members.

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Question 3:

Refer to Exhibit 3, page 3 of 3. Provide the weighted average interest rate for the RUS notes provided in this chart. If this amount is calculated using any electronic worksheets or Excel documents, provide them along with the response. If this amount is equal to the effective interest rate provided in Exhibit 6, page 2 of 3, of 4.40%, confirmation of the same is an acceptable response.

Response:

Please see Excel spreadsheet on USB Drive included in this filing.

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Question 4:

Refer to Exhibit 6, page 2 of 3. Explain, in complete detail, what the amounts under "Cash Flows" and "Cash Patronage" in year 2043-2062 under the CFC scenario represent. This response should include an explanation as to why the amounts appear in the CFC scenario, but not the RUS scenario.

Response:

CFC, like Big Sandy, is a cooperative and returns margins to its members in the form of patronage capital. The cash portion is known as cash patronage. The Cash Patronage column, found on Exhibit 6, page 2 of 3, refers to the cash CFC projects it will pay Big Sandy from patronage capital previously allocated. CFC's current policy is to pay 50% of the current year's patronage capital retirement in cash and 50% 25 years later. RUS is not a cooperative, therefore, Big Sandy does not receive cash patronage from RUS loans.

**Big Sandy Rural Electric Cooperative Corporation**  
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Question 5:

Refer to Exhibit 6, page 2 of 3. Explain whether this summary accounts for the Time Value of Money. If not, why not? If the summary does account for the Time Value of Money, what discount rate was considered?

Response:

Please see Exhibit A for Net Present Value Comparisons between CFC refinancing and current RUS.

**Big Sandy Rural Electric Cooperative Corporation**  
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**Attorney General's Initial Request for Information**

Question 6:

Refer to Commission Staff Request 1-5. Does Big Sandy anticipate requesting recovery of any fees or expenses incurred in closing this proposed refinancing in its pending rate adjustment application? If so, where are these costs located in the application?

Response:

Big Sandy will not be charged a prepayment fee by RUS or a closing fee by CFC.

**Big Sandy Rural Electric Cooperative Corporation**  
**Case No. 2017-00190**  
**Attorney General's Initial Request for Information**

Question 7:

Refer to Exhibit 6, page 2 of 3. Confirm that the annual payments from Big Sandy stemming from the CFC summary are higher than the RUS summary for the first 9-10 years of the comparison. If Big Sandy does confirm this, are the additional expenses (higher debt cost) provided for in the pending rate adjustment application? If so, where are these costs located in the application, and for what amount?

Response:

Big Sandy confirms that the total cash disbursed will increase for the first 9-10 years. It should be noted that this increase does not represent an increase in expense to the cooperative and its members for that period. Big Sandy's disbursement of cash will increase compared to RUS for the first 9-10 years, however, this is due to an increase in debt principal being retired. Interest expense during this time period and throughout the term of the loan will be less than if the loans remain with RUS. Therefore, the result of the refinancing will be a cost reduction throughout the entire term of the loan.

Big Sandy's rate adjustment application covers the 12-month time period ending July 31, 2016. Big Sandy based its application off operating data from that time period.

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**Attorney General's Initial Request for Information**

Question 8:

Refer to Exhibit 3, page 3 of 3. If all five (5) of these RUS notes are refinanced as proposed, how many notes will Big Sandy have outstanding with RUS? If Big Sandy will have additional notes outstanding with RUS, what are the amounts, interest rates, and maturity of those notes?

Response:

Big Sandy will still have six (6) notes outstanding with RUS. Please see attached Exhibit B for the amounts, interest rates, and maturity of those notes.

**Big Sandy Rural Electric Cooperative Corporation**  
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Question 9:

Refer to the Application, paragraph 11. Confirm whether or not Big Sandy's reference to 807 KAR 5:001, Section 11(2)(c) was made in error. If the reference was made in error, provide the regulation Big Sandy intended to refer to.

Response:

The reference in Big Sandy's Application, paragraph 11 is incorrect. The correct regulation is 807 KAR 5:001, Section 18 (1)(d).

**Big Sandy Rural Electric Cooperative Corporation**  
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**Attorney General's Initial Request for Information**

Question 10:

Refer to Exhibit 6, pages 2-3 of 3. What would Big Sandy's interest payment be on the proposed CFC notes in the first year?

Response:

Based on Exhibit 6, page 2 of 3 Big Sandy anticipates its first year's interest expense to approximate \$200,576 with CFC versus \$278,538 if the debt remains at RUS.



BIG SANDY RECC  
LONG TERM DEBT- RUS

ISSUE DATE	MATURITY DATE	NOTE NUMBER	ORIGINAL AMOUNT	INTEREST RATE	LOAN BALANCE
Jan-96	Jan-31	RET-6-1	\$ 400,000	3.3750%	\$ 226,019.93
Jan-96	Jan-31	RET-6-2	\$ 200,000	0.6250%	\$ 109,211.48
Jan-96	Jan-31	RET-6-3	\$ 500,000	0.5000%	\$ 270,469.33
Jan-96	Jan-31	RET-6-4	\$ 229,500	0.3750%	\$ 129,415.51
Jan-96	Jan-31	RET-6-5	\$ 500,000	0.8750%	\$ 259,629.41
Jan-96	Jan-31	RET-6-6	\$ 829,500	4.2500%	\$ 488,688.74