

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|-------------------------------------|---|-----------------|
| THE APPLICATION OF THE LICKING |) | |
| VALLEY RECC FOR THE AUTHORIZATION |) | |
| TO EXECUTE A SUBSTITUTE SECURED |) | |
| PROMISSORY NOTE IN THE AMOUNT OF |) | |
| FOUR HUNDRED, FORTY-SIX THOUSAND |) | |
| (\$446,000) DOLLARS TO NATIONAL |) | |
| RURAL UTILITIES COOPERATIVE FINANCE |) | CASE NO. 89-167 |
| CORPORATION, SAID NOTE IN LIEU OF A |) | |
| PRIOR SECURED PROMISSORY NOTE FOR |) | |
| THE ABOVE AMOUNT EXECUTED BY THE |) | |
| APPLICANT TO NATIONAL RURAL |) | |
| UTILITIES COOPERATIVE FINANCE |) | |
| CORPORATION ON JUNE 24, 1983 |) | |

O R D E R

On June 21, 1989, Licking Valley Rural Electric Cooperative Corporation ("Licking Valley") filed its application seeking the approval of the Commission to execute a substitute promissory note with the National Rural Utilities Cooperative Finance Corporation ("CFC"). Licking Valley seeks this substitution because of changes in CFC's loan policies which have occurred since the original note was issued in 1983. The substitute note contains provisions which will permit Licking Valley to change the interest payment options during the remaining term of the loan, on relatively short notice to CFC, allowing Licking Valley to take full advantage of fluctuating interest rates. No additional loan funds will be obtained through the execution of the substitute note, and the maturity date of the loan is unchanged. The Commission's Order of August 7, 1989, requesting additional information

concerning the substitution, has been responded to by Licking Valley.

During the review of this application, the Commission has become aware of certain facts about which it is greatly concerned. In the application, Licking Valley stated that the current note that it wishes to substitute presently is a fixed interest rate note, bearing an interest rate of 11.75 percent. However, in its response to the Commission's Order of August 7, 1989, Licking Valley stated that the note was converted from the fixed interest rate to a variable interest rate on December 1, 1986. Licking Valley further stated that this conversion required no alteration of the loan documents, and no conversion fee was involved. The Commission is perplexed as to how this conversion could take place in 1986 without an alteration of the loan documents, when Licking Valley's present application constitutes an alteration of the loan document to allow for such a conversion. In addition, the Commission is concerned that Licking Valley did not seek Commission approval of the conversion, which is required by KRS 278.300. It is apparent from the filed loan documents that such a conversion was not an option available to Licking Valley under the terms of the current CFC note.

The Commission has reviewed the interest rates charged by CFC during the period from December 1986 to the present for all loan options. The Commission notes that the variable interest rates charged during this period have been lower than the stated fixed rate of 11.75 percent on the original note.

The Commission is of the opinion that the request to execute a substitute note with CFC should be approved. While Licking Valley did convert this note without Commission approval in 1986, it is apparent to the Commission that Licking Valley has experienced reduced interest expenses due to this action. However, the Commission puts Licking Valley on notice that in the future, when such loan interest rate conversions are being considered, Licking Valley should consult with the Commission in order to determine what approvals are needed before the conversion is executed. The Commission is also of the opinion that Licking Valley should include in its monthly financial report to the Commission the current interest rate on its variable rate loans outstanding.

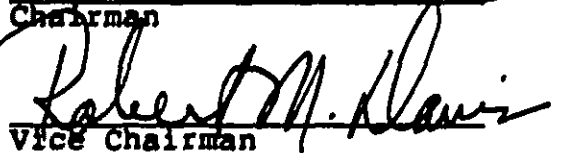
IT IS THEREFORE ORDERED that:

1. Licking Valley's request to execute a substitute promissory note to CFC be and hereby is granted.
2. Licking Valley shall include in its monthly financial report to the Commission the current interest rate on its variable rate loans outstanding.

Done at Frankfort, Kentucky, this 21st day of September, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director