

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH KENTUCKY RURAL )  
ELECTRIC COOPERATIVE CORPORATION FOR A )  
CERTIFICATE OF CONVENIENCE AND )  
NECESSITY TO CONSTRUCT ADDITIONAL )  
LINES AND FACILITIES AND TO EXECUTE ) CASE NO. 89-183  
ITS NOTE TO NATIONAL RURAL UTILITIES )  
COOPERATIVE FINANCE CORPORATION IN THE )  
AMOUNT OF \$1,957,732 )

O R D E R

South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") filed its application on June 30, 1989 for a Certificate of Public Convenience and Necessity to construct additional lines and facilities and for approval to borrow funds and to execute its notes to secure such loan. The improvements and additions are estimated to cost \$6,329,376 and were expected to be financed by a loan of \$4,430,000 from the Rural Electrification Administration ("REA") and a loan of \$1,957,732 from National Rural Utilities Cooperative Finance Corporation ("CFC").<sup>1</sup>

On August 29, 1989, the Commission issued an Interim Order granting South Kentucky a Certificate of Public Convenience and Necessity for the proposed construction but deferred ruling on the

---

<sup>1</sup> The borrowing from the CFC includes the purchase of capital term certificates, in an amount equal to 3 percent of the total CFC loan. CFC requires its borrowers to purchase these certificates.

proposed loans because neither REA nor CFC had yet agreed to make them. The Commission also informed South Kentucky that the documented costs of the system improvements proposed did not equal South Kentucky's financing request. The Commission advised that it would consider authorizing South Kentucky to borrow \$1,945,670 from CFC, rather than the \$1,957,732 it requested in its application. South Kentucky was to file additional information if it wished the Commission to consider the original request of \$1,957,732.

On September 19, 1989, South Kentucky filed copies of correspondence received from REA and CFC approving its loans. However, the correspondence stated that the loan with REA would be for only \$4,418,000 and the loan with CFC would be for only \$1,951,546, including the purchase of required capital term certificates. Further analysis indicated that the total approved project cost was \$6,311,000 rather than \$6,329,376 as South Kentucky had stated in its application. In addition, South Kentucky had not filed any additional information which supported borrowing more than \$1,945,670 from CFC, as had been required in the Commission's Order of August 29, 1989.

The Commission Staff informed South Kentucky of the discrepancies discovered in the loan approval correspondence and requested clarification of the situation. On September 27, 1989, South Kentucky filed a schedule reconciling the discrepancies and a copy of the REA approved Form 740c, which lists the system improvements and the level of costs REA has approved for financing. South Kentucky showed that the difference in project costs

provided to the Commission and REA was due to REA's refusal to approve the full amount submitted to the Commission. The reconciliation schedule supported the borrowing of \$1,951,546 from CFC.

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

1. The proposed loan of \$1,951,546 from CFC is for lawful objects within the corporate purposes of South Kentucky, is necessary and appropriate for and consistent with the proper performance by South Kentucky of its service to the public, and will not impair its ability to perform that service.

2. South Kentucky is capable of executing its notes as security for the loan as stated herein.

3. South Kentucky should select the interest rate program which will result in the net lowest cost of money to it over the term of the financing.

4. South Kentucky should notify the Commission in writing of the interest rate program selected and of the reasons for its selection.

5. The proceeds from the proposed loans should be used only for the lawful purposes set out in South Kentucky's application.

6. South Kentucky should include in its monthly report to the Commission the current interest rate on its outstanding variable rate loans.

7. As the issuance of securities or evidences of indebtedness subject to the control of a federal governmental agency do not require Commission approval, KRS 278.300(10), and as the REA

is an agency of the federal government, no action on South Kentucky's proposed loans from the REA is required.

IT IS THEREFORE ORDERED that:

1. South Kentucky be and it hereby is authorized to borrow \$1,951,546 from CFC for a 35-year period and bearing either a fixed or variable interest rate, as chosen by South Kentucky, at the time the first monies are drawn from CFC, subject to the provisions and terms of the application with respect to renegotiation of the interest rate.

2. South Kentucky be and it hereby is authorized to execute its notes as security for the loan herein authorized.

3. South Kentucky shall select the interest rate program which will result in the net lowest cost of money to it over the term of the financing and shall notify the Commission in writing of the interest rate program selected and the reasons for the selection.

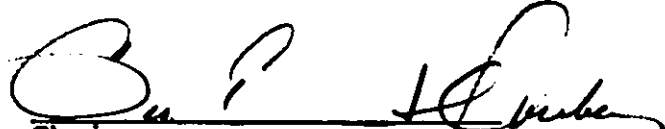
4. Proceeds from the REA and CFC loans shall be used only for purposes related to the construction of lines and facilities described in South Kentucky's application.

5. South Kentucky shall include in its monthly report to the Commission the current interest rate on its outstanding variable rate loans.

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.

Done at Frankfort, Kentucky, this 17th day of October, 1989.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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