

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF NOLIN RURAL ELECTRIC)
COOPERATIVE CORPORATION'S REVISION) CASE NO. 90-064
TO ITS ELECTRIC TARIFFS)

O R D E R

On November 4, 1991, Nolin Rural Electric Cooperative Corporation ("Nolin") filed a petition for a deviation from the Settlement Agreement approved by the Commission's October 31, 1990 Order. Nolin stated that under the Settlement Agreement, the amount of capital credits it was obligated to retire in 1991 totals approximately \$1,637,000. Nolin further stated that it did not have available funds with which to pay the capital credits to its members, but only had funds available to pay capital credits to the estates of deceased members. Nolin requested relief from the obligation to pay capital credits pursuant to the terms of the Settlement Agreement until such time as its board of directors determines that it is financially able to do so.

Under the terms of the Settlement Agreement, Nolin is required to apply all total margins in excess of a 1.5 Times Interest Earned Ratio ("TIER") to the retirement of capital credits to its members. In addition, Nolin is also required to retire in calendar year 1991 an amount deferred from the 1990 retirement. The Settlement Agreement also requires Nolin to make a good faith effort to reduce its equity level. The Settlement

Agreement provides that Nolin may be relieved of its obligation to retire capital credits only when, due to circumstances beyond its control, the Rural Electrification Administration ("REA") or the National Rural Utilities Cooperative Finance Corporation ("CFC") have suspended or discontinued advancing loan funds to Nolin.

Nolin did not provide financial information, workpapers, or calculations in support of its request for a deviation. Based on a review of Nolin's monthly and annual reports on file with the Commission, it appears that Nolin does not have adequate funds available to make the \$1,637,000 retirement. However, it also appears that Nolin's equity level has increased, rather than decreased, since the adoption of the Settlement Agreement. On October 31, 1990, Nolin's equity level was at 61.6 percent; the most recent information on file with the Commission indicates that it is now 62.7 percent.

Nolin did not provide any documentation which indicated that the REA or CFC had suspended or discontinued advancing loan funds to Nolin. In fact, the Commission notes that Nolin has a pending application for approval of construction and financing under its current two-year work plan, Case No. 91-252.¹ The Commission is aware that work plan expenditures must first be made from

¹ Case No. 91-252, Application of the Nolin Rural Electric Cooperative Corporation for Authority to Borrow the Sum of \$2,000,000.00 from the Federal Financing Bank of the United States of America, and the Additional Sum of \$1,441,000.00 from the Rural Electrification Authority, and the Additional Sum of \$617,340.00 from the National Rural Utilities Cooperative Finance Corporation; and to Execute Notes for Said Amounts.

cooperative general funds and short-term financing and are later reimbursed through advances from authorized long-term loans. In response to data requests in Case No. 91-252, Nolin has indicated that construction under the work plan began in July 1990, and that for the twelve months ended July 31, 1991, Nolin had spent \$1,788,074.² Nolin sought financing from REA and CFC in January 1991 and from the Federal Financing Bank in April 1991.³

Nolin has stated that because of the rate decrease agreed to as part of the Settlement Agreement, funds are not now available to make the retirements. However, based upon the Commission's review, it appears that the major reason for the unavailability of funds is the expenditures incurred for current construction projects and the timing of the financing applications.

The Commission is concerned that Nolin has not proposed a timetable under which it would make the 1991 retirements. Nolin's proposal to waive the requirement of payment until its board of directors determines that Nolin is financially able to do so raises the possibility that several years could pass before the retirement is made. Such an indefinite deferral of the payout would compound cash flow problems in future years and delay subsequent capital credit retirements.

Based on the record, and being advised, the Commission finds that Nolin should be allowed to deviate from the Settlement

² Response to the Commission's September 26, 1991 Order, Item 13(b).

³ Id., Item 1.

Agreement only to the extent that the 1991 capital credit retirements will not be required to be paid in 1991. However, Nolin should make arrangements to pay its 1991 retirements, by designating loan advances, obtaining short-term borrowings, or other means, as expeditiously as possible but in no event later than March 31, 1992. Nolin should file, within 30 days of the date of this Order, a payment schedule outlining how the 1991 retirements will be made. This deviation will not affect Nolin's obligation under the Settlement Agreement for capital credit retirements in 1992 and subsequent years.

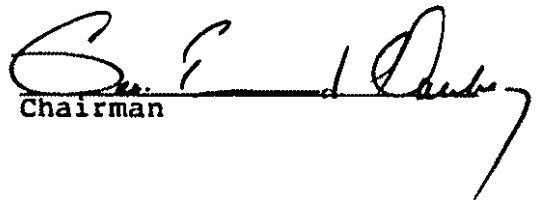
IT IS THEREFORE ORDERED that:

1. Nolin be and it hereby is granted a deviation from the Commission's October 11, 1990 Order to the limited extent that the 1991 capital credit retirements shall be made no later than March 31, 1992.

2. Within 30 days from the date of this Order, Nolin shall file a payment schedule setting forth the amounts and dates of its 1991 capital credit retirement, and whether the funds will come from loan advances, short-term borrowings, or other means.


Done at Frankfort, Kentucky, this 20th day of December, 1991.

PUBLIC SERVICE COMMISSION


Chairman

ATTEST:


Executive Director

Vice Chairman

Commissioner