

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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 ADDI- )  
TIONAL SUM OF \$1,441,000.00 FROM THE ) CASE NO. 91-252  
RURAL ELECTRIFICATION AUTHORITY, AND )  
THE ADDITIONAL SUM OF \$617,340.00 FROM )  
THE NATIONAL RURAL UTILITIES COOPERA- )  
TIVE FINANCE CORPORATION; AND TO )  
EXECUTE NOTES FOR SAID AMOUNTS )

O R D E R

IT IS ORDERED that Nolin Rural Electric Cooperative Corporation ("Nolin") shall file an original and six copies of the following information with this Commission, with a copy to all parties of record within 10 days from the date of this Order. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. Concerning the response to Item 4 of the September 26, 1991 Order, explain why Nolin did not consider borrowing funds from the National Bank for Cooperatives.

2. Concerning the response to Item 6, provide a copy of the documentation from the National Rural Utilities Cooperative Finance Corporation ("CFC") which shows the fixed interest rate of

8.75 percent and the corresponding variable interest rate. Include a detailed explanation of why Nolin would select a fixed interest rate rather than a variable interest rate.

3. The response to Item 8(a) did not adequately respond to the request. Nolin has stated that it was not familiar with the Federal Financing Bank of the United States ("FFB"), and understood that it was a federal agency similar to or part of the Rural Electrification Administration ("REA"). Provide a detailed explanation concerning the research Nolin performed on FFB before deciding to seek a loan guarantee. Include information with regard to the nature of the FFB's loan guarantee program, the determination of interest rates charged, and the terms and conditions Nolin will have to agree to in order to secure the loan guarantee.

4. In response to Item 8(b), Nolin stated that its board of director's resolution and a REA Form 740c constituted the loan application with FFB. However, Exhibit 6 of the response makes reference to "Nolin's AD8 loan application." Provide a copy of the AD8 loan application.

5. Concerning the response to Item 8(c), provide the following information:

a. Explain why Nolin would consider borrowing funds from FFB without having any description of the interest rate program.

b. Explain why Nolin used an estimated interest rate of 8 percent.

6. The response to Item 14(a) did not adequately respond to the request. Provide a discussion of Nolin's understanding concerning the current status of the REA loan program. Include in this discussion the subjects of lien accommodations by REA, changes in the traditional 70 / 30 percentage financing mix, and the possibility of cooperatives internally financing a portion of the total work plan funding needs.

7. Concerning the response to Item 14(b), provide the requested REA mortgage agreement, if available.

8. Concerning the response to Item 15, the narrative seems to indicate that the sole reason for using FFB financing was the availability of the loan funds. Explain why the availability of loan funds should be the only reason for selecting a borrower. Indicate what other considerations led Nolin to seek funds from FFB.

9. The application shows that 36 percent of the total financing comes from REA, 49 percent from FFB and 15 percent from CFC. If the interest rates for these loans are at 5 percent, 8 percent, and 8.75 percent, respectively, the blended interest rate would be approximately 7.03 percent. If Nolin had proposed to borrow 70 percent from REA and 30 percent from CFC, at 5 and 8.75 percent, the blended interest rate would be 6.125 percent. Provide a detailed explanation as to why it is more appropriate to borrow the loan funds in the manner proposed by Nolin, considering the difference in blended interest rates.

10. Provide a copy of the loan guarantee documents received from FFB, as was indicated in the correspondence from FFB provided as Exhibit 6.

Done at Frankfort, Kentucky, this 8th day of November, 1991.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director