

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE REQUEST OF GRAYSON RURAL)
ELECTRIC COOPERATIVE CORPORATION)
FOR A DEVIATION FROM ITS 1988) CASE NO. 94-392
SETTLEMENT AGREEMENT)

O R D E R

On August 19, 1994, Grayson Rural Electric Cooperative Corporation ("Grayson") filed a request for authority to deviate from its obligation to retire capital credits in the amount of its 1993 margins in excess of a 2.00 Times Interest Earned Ratio ("TIER"). Grayson further requested that it be allowed to delay this retirement until calendar year 1996.

Under the terms of the 1988 Supplemental Settlement Agreement ("Settlement Agreement") reached in Case No. 9980,¹ all total margins in excess of a 2.00 TIER would be used to retire capital credits to Grayson's members. Grayson calculated that its capital credit retirement obligation from 1993 operations was \$111,159.

Grayson based its request on Section 8 of the 1988 Settlement Agreement, claiming that this authorizes an application for relief from the obligation to retire capital credits due to circumstances beyond its control. Section 8 provides that:

Grayson may apply to the Public Service
Commission for relief from the aforementioned

¹ Case No. 9980, The Application of Grayson Rural Electric Cooperative Corporation for an Adjustment of Rates, final Order issued March 11, 1988.

obligations to retire capital credits when, due to circumstances beyond Grayson's control, the Rural Electrification Administration or the Nation Rural Utilities Cooperative Finance Corporation has suspended or discontinued advancing loan funds to Grayson.²

Grayson stated that the impact of three weather-related storms in the first quarter of 1994 constituted such circumstances. Citing its currently impaired financial condition, Grayson stated that the retirement would further impair its overall financial condition.

Grayson is required by its lenders to maintain a Current Ratio, the ratio of current assets to current liabilities, of 1.0 or higher after the retirement of capital credits. Grayson's Current Ratio has been below 1.0 every month, except one, since May 1994. Grayson projects that it will be able to make the 1993 retirements in calendar year 1996 and affirmed its obligations to do so when its financial condition improves.

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that Section 8 of the Settlement Agreement is not applicable. While the weather-related circumstances encountered by Grayson were undoubtedly beyond its control, there has been no showing that Grayson's lenders have suspended or discontinued advancing loan funds. Such action by Grayson's lenders is a condition precedent to invoking Section 8.

A review of Grayson's financial condition indicates that it has been adversely affected by storm related expenses incurred in 1994. However, other factors such as a buy out of the former

² Id., Appendix B, page 3.

general manager's contract, increased right-of-way clearance expense, and recognition of its Statement of Financial Accounting Standard No. 106 transition obligation have decreased earnings.

Due to Grayson's current financial condition, it is clear that the retirement cannot be made immediately. Thus, an extension of time should be granted to make the retirement. Grayson should make every reasonable effort to improve its Current Ratio by achieving a proper balance of loan funds, short-term borrowings, and general funds.

Grayson reports its Current Ratio with its monthly financial reports. In the event the ratio exceeds 1.0 in any month subsequent to this Order, the applicable monthly financial report should present a recalculation of the ratio assuming the payment of the capital credits. If this recalculation results in a ratio exceeding 1.0, Grayson will begin processing the capital credit retirement. When the retirement is actually made, Grayson should notify the Commission within 10 days of how the retirement was funded.

IT IS THEREFORE ORDERED that:

1. Grayson's request to deviate from the Settlement Agreement be and it hereby is denied.

2. Grayson shall be authorized to delay making its 1993 retirements until its Current Ratio exceeds 1.0.

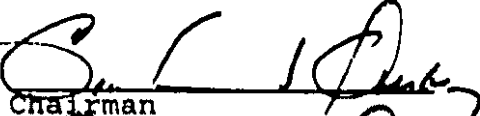
3. When Grayson's monthly Current Ratio exceeds 1.0, it shall include with its monthly financial report a recalculation of the ratio assuming the payment of the 1993 capital credits. If the

recalculated ratio still exceeds 1.0, Grayson shall begin processing the capital credit retirement.

4. Within 10 days of the completion of the capital credit retirement, Grayson shall notify the Commission of how the retirement was funded.

Done at Frankfort, Kentucky, this 8th day of August, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director