

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF JACKSON COUNTY RURAL)
ELECTRIC COOPERATIVE CORPORATION (1))
FOR AN ORDER PURSUANT TO KRS 278.300)
AND 807 KAR 5:001, SECTION 11 AND)
RELATED SECTIONS, AUTHORIZING THE)
CORPORATION TO CONVERT AN AMOUNT NOT TO) CASE NO. 95-521
EXCEED \$4,000,000.00 IN LONG TERM DEBT)
FROM THE NATIONAL RURAL UTILITIES)
COOPERATIVE CORPORATION (CFC) FOR THE)
PURPOSE OF RETIRING \$4,000,000.00 IN)
SHORT TERM DEBT)

O R D E R

Jackson County Rural Electric Cooperative Corporation ("Jackson County") filed its application on November 17, 1995 for approval of the conversion of \$4,000,000 in line of credit loans to a 15-year long-term loan. Both loans were with the National Rural Utilities Cooperative Finance Corporation ("CFC"). Jackson County stated that the original line of credit loans were expended for the construction of minor projects associated with its 1990-1992 Work Plan. These minor projects were not included in or financed as part of the 1990-1992 Work Plan.

In data responses filed on December 21, 1995, Jackson County disclosed that it had switched to another CFC financing option, a 5-year intermediate-term loan in the amount of \$3,000,000.¹ A

¹ See response to the Commission's Order dated December 15, 1995, Item 8. The loan amount was reduced due to the receipt of a Federal Emergency Management Agency reimbursement for 1994 winter storm damages and additional cash available from operations.

primary reason for the switch was to avoid the complicated and lengthy process to secure a lien accommodation from the Rural Utilities Service.² Although the 15-year long-term loan requires a lien accommodation, the 5-year intermediate-term loan does not.

The CFC intermediate-term loan program selected by Jackson County requires one half of the loan to be amortized over the 5-year term with the remainder due as a balloon payment at the end of the term. If the balloon payment cannot be made, the outstanding balance can be renewed and amortized over the next 5 years. CFC requires no security for this loan and offers fixed and variable interest rates. Jackson County has decided to select a variable rate but has the option to convert to a fixed rate during the term. On January 8, 1996, Jackson County filed a copy of correspondence from CFC approving the loan with a variable interest rate.

At the outset the Commission notes that Jackson County should have promptly amended its financing application to reflect the change in loan options. Although Jackson County decided on the change shortly after its application was filed, no amendment was ever filed. The Commission was eventually informed of the change through responses to information requests. In all future proceedings, Jackson County will be expected promptly to notify the Commission by amendment of significant changes in its application.

Having considered the evidence of record and being advised, the Commission finds that:

² Response to the Commission's Order dated December 15, 1995, Item 2.

1. The proposed loan from CFC is for lawful objects within the corporate purposes of Jackson County, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonable, necessary, and appropriate for such purposes.

2. Jackson County is capable of executing its notes as security for the loan as stated herein.

3. Although Jackson County has committed to a variable interest rate, that rate should be reevaluated at the time it is finalized to ensure that it results in the net lowest cost over the term of the financing.

4. Should Jackson County decide to select a fixed interest rate instead of a variable rate, it should notify the Commission in writing of the reasons for the selection within 10 days of the decision.

5. The proceeds from the proposed loan should be used for the lawful purposes set out in Jackson County's application.

6. Jackson County should include in its monthly financial report to the Commission the current interest rate on its outstanding variable rate loans.

IT IS THEREFORE ORDERED that:

1. Jackson County be and it hereby is authorized to borrow \$3,000,000 from CFC for a 5-year period bearing either a fixed or variable rate, as chosen by Jackson County 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.

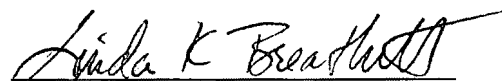
2. Jackson County be and it hereby is authorized to execute its notes as security for the loan herein authorized.

3. Jackson County shall comply with all matters set out in Findings 3 through 6 as if they were individually so ordered.

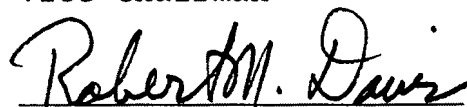
Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 7th day of February, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director