

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF NOLIN RURAL )  
ELECTRIC COOPERATIVE CORPORATION )  
FOR AN ORDER PURSUANT TO KRS 278.300 )  
AND 807 KAR 5:001, SECTION 11 AND )  
RELATED SECTIONS AUTHORIZING THE )  
COOPERATIVE TO BORROW AN AMOUNT )  
NOT TO EXCEED \$35,000,000 FROM THE )  
NATIONAL RURAL UTILITIES COOPERATIVE )  
FINANCE CORPORATION )

CASE NO. 2003-00079

O R D E R

On February 28, 2003, Nolin Rural Electric Cooperative Corporation ( Nolin ) filed its application for authorization to obtain a loan in the amount of \$35,000,000. The loan will be issued by the National Rural Utilities Cooperative Finance Corporation ( CFC ) at a variable interest rate. The proposed CFC loan will be for a term of 15 years. CFC has approved Nolin s loan application and the Rural Utilities Service has granted Nolin s request for Lien Subordination. Nolin plans initially to draw \$19,000,000 from the \$35,000,000 CFC loan and draw on the remaining balance as needed for future projects.

Nolin entered into a contract with the Fort Knox Military Base ( Fort Knox )<sup>1</sup> wherein Nolin performs work or contracts for work to be performed at Fort Knox that will

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<sup>1</sup> The contract is pursuant to task orders issued under Demand Side Management and Energy Efficiency Services Contract No. DABT23-84C0089 ( DSM Contract ), dated January 22, 1996 and a modified service contract dated May 16, 2002.

result in energy savings through updating of electrical equipment, lighting systems, and similar energy savings projects. To date, Nolin has funded these projects using its general funds and its existing CFC short-term line of credit. Fort Knox pays Nolin for all DSM Contract projects, as well as interest plus a multiplier of 1.05. Nolin will utilize the proposed CFC loan as a source of funds for the DSM Contract projects, rather than relying on its own internal sources of funds. The proposed CFC loan will be secured by a security interest to be granted to CFC in the revenues and reimbursements Nolin is to receive under the terms of a contract with Fort Knox.<sup>2</sup>

Nolin offered Fort Knox fixed and variable interest rate options, and Fort Knox requested use of the variable interest rate. The use of a variable interest rate is consistent with the terms of the DSM Contract. As it has done previously, Fort Knox will pay Nolin the interest plus a multiplier of 1.05. The ownership of the projects completed by Nolin remain the property of Fort Knox. As the contract is for DSM-related projects, Nolin will not be seeking an amendment to its territorial service boundaries and will not be providing electricity outside its territorial service boundaries.

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<sup>2</sup> Application at 3-4, paragraph 11. The Collateral for the proposed CFC loan is defined as follows:

Collateral shall mean, whether now owned by Debtor or hereafter acquired, and whether now existing or hereafter coming into existence: (a) All monies due or to become due to the Debtor for performance of certain energy conservation projects at the Fort Knox Military Base pursuant to task orders issued under Demand Side Management and Energy Efficiency Services contract identified as Contract No. DABT23-84C0089, dated January 22, 1996, by and between Debtor and the United States of America (the Government); (b) All interest on, proceeds of and to any of the property described in subparagraph (a) above, including (i) interest owned by the Government under the Prompt Payment Act as amended 31, U.S.C. 3901-3906 and (ii) any amounts payable to Debtor as a result of any claims relating to the foregoing under the Contracts Dispute Act 41 U.S.C. 611.

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

1. The loan from CFC in the amount of \$35,000,000 requires Commission approval, is for lawful objects within the corporate purposes of Nolin, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary and appropriate for such purposes, and should be approved.

2. The CFC loan is secured by the revenues and reimbursements Nolin receives from Fort Knox under the DSM Contract, as described in Nolin's application.

3. When Nolin draws down funds from the CFC loan, it should include in its corresponding monthly financial report to the Commission the current outstanding balance on the CFC loan before the draw down, the amount to be drawn down from the CFC loan, and the interest rate on the amount being drawn down.

4. Nolin should include in its annual financial report to the Commission a separate disclosure on the status of the CFC loan, including the current interest rate and expense for the DSM Contract project loan and the outstanding balance of the loan.

5. The proceeds from the proposed loan should be used only for the lawful purpose set out in Nolin's application.

6. Any changes in the interest rate selected by Nolin for the CFC loan will require prior approval of the Commission.

IT IS THEREFORE ORDERED that:

1. Nolin is authorized to borrow \$35,000,000 from CFC for a 15-year period bearing a variable rate.

2. Nolin is authorized to secure the loan as described in its application.
3. Nolin 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 17<sup>th</sup> day of April, 2003.

By the Commission

ATTEST:

  
Executive Director