

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SALT RIVER ELECTRIC)	
COOPERATIVE CORPORATION FOR AN ORDER)	
PURSUANT TO KRS 278.300 AND 807 KAR 5:001,)	CASE NO.
SECTION 11 AND RELATED SECTIONS,)	2003-00280
AUTHORIZING THE CORPORATION TO BORROW)	
AN AMOUNT NOT TO EXCEED \$14,442,188)	

O R D E R

On July 22, 2003, Salt River Electric Cooperative Corporation (Salt River) filed its application for authority to issue notes to either the National Rural Utilities Cooperative Finance Corporation (CFC) or the National Bank for Cooperatives (CoBank) in an amount not to exceed \$14,442,188.¹ The notes would be secured by a mortgage on Salt River s property. Salt River intends to use the proceeds from the proposed loan to refinance and discharge part of its indebtedness to the Rural Utilities Service (RUS), resulting in a lower interest rate and savings of approximately \$2,800,000 over the life of the loan.² CFC and CoBank have indicated to Salt River each lender is prepared to approve the borrowing on August 8, 2003.³

¹ Application at 1.

² Salt River submitted analyses prepared by CFC and CoBank that, while reflecting differences in the two lenders programs, reflected approximate cash flow savings of \$2,800,000.

³ Response to the Commission Staff s First Data Request dated July 30, 2003, Item 5(d).

As of May 31, 2003, Salt River's outstanding balance of RUS debt was \$33,596,680.⁴ The outstanding balance of RUS debt is made up of 2 percent fixed rate debt, 5 percent fixed rate debt, and variable rate debt. Salt River also has long-term debt with CoBank and the outstanding balance as of May 31, 2003 was \$11,245,021.⁵

In light of historically low interest rates, CFC and CoBank have developed debt refinancing programs that are being made available to electric cooperatives. Under the programs, eligible RUS 5 percent fixed rate debt is refinanced with CFC or CoBank long-term debt. RUS determines a payoff amount that is comprised of principal and interest due on the debt eligible to be refinanced. The cooperative will work with CFC or CoBank to determine the most beneficial loan configuration in order to maximize the potential savings. The new CFC or CoBank loans can have either a fixed or variable interest rate initially, and the interest rate is eligible for the conversion options available on any other CFC or CoBank loan. As part of the analysis performed by CFC or CoBank, a cash flow analysis and a net present value analysis of the cash flows are prepared.

Salt River proposes to refinance up to \$14,442,188 under either the CFC or CoBank program. Salt River states that if the Commission grants its request, Salt River will only borrow the funds to pay off eligible RUS loans and will pay the balance owed

⁴ Application Exhibit 2, page 1 of 2. This balance does not include the outstanding balance of a Rural Economic Development Loan that Salt River has with RUS. The outstanding balance of that loan as of May 31, 2003 was \$427,777.

⁵ Application Exhibit 2, page 2 of 2.

on the eligible loans at the time the refinancing is completed.⁶ Under no circumstances will Salt River borrow more than \$14,442,188, and it will only undertake the refinancing if savings are available.⁷ Salt River will select CFC or CoBank based on the refinancing program most beneficial to Salt River. Salt River plans to select the fixed interest rate option on this loan. Salt River provided cash flow analyses from CFC and CoBank based on the \$14,442,188 amount that indicates it could save approximately \$2,800,000 over the life of the loan.⁸ The cash flow analysis also indicates that the new CFC or CoBank loan could be paid off in 16 years, rather than the 24 years remaining on the various RUS loans. Salt River also provided a net present value analysis of the cash flow savings estimated by CFC and CoBank. Both analyses show positive net present value savings for Salt River.⁹

⁶ Response to the Commission Staff's First Data Request dated July 30, 2003, Item 2.

⁷ Application at 2.

⁸ The CFC cash flow analysis indicates potential savings of \$2,803,142. The CoBank cash flow analysis indicates potential savings of \$2,884,256. Both analyses reflected the repayment of the new loan over a 16-year period. The potential savings reflect the differences between the CFC and CoBank loan programs and the interest rates available at the time the analyses were prepared. See Application Exhibit 1, page 3 of 8 and Response to the Commission Staff's First Data Request dated July 30, 2003, Item 3, Exhibit 2, page 5 of 20.

⁹ The CFC analysis shows that the interest rates reflecting the value of money could go as high as 8.25 percent and there would be positive net present value savings. The CoBank analysis shows that at an interest rate of 4.70 percent, the net present value savings would be \$893,342. See Application Exhibit 1, page 3 of 8 and Response to the Commission Staff's First Data Request dated July 30, 2003, Item 3, Exhibit 2, page 5 of 20.

The Commission has reviewed Salt River's proposal to refinance a significant portion of its outstanding RUS debt and finds the proposal reasonable. Salt River has determined it can refinance a portion of its RUS 5 percent fixed rate debt at a lower effective interest rate, repay that debt sooner, and experience cash flow savings over the period of the loan. The Commission commends Salt River for taking advantage of the financing alternatives available to it, and securing savings for itself and its member-consumers.

The selection of the CFC or CoBank refinancing program will be determined by Salt River after the issuance of this Order. The Commission agrees with Salt River that the proposed refinancing should be undertaken only if savings are available. In the event Salt River determines that neither refinancing program will be beneficial or will provide savings, it should notify the Commission in writing within 10 days of reaching this determination.

The final amounts of the RUS payoff and the new CFC or CoBank loan will not be known until the refinancing transaction is finalized. Therefore, Salt River should provide the Commission with the exact amount of the new CFC or CoBank loan within 10 days of finalizing the transaction. In addition, Salt River should provide an updated version of the cash flows and the net present value analysis of the savings for the new CFC or CoBank loan.

In recognition of the volatility of interest rates and the potential impact that changes in the interest rates could have on the benefits from the CFC or CoBank refinancing programs, the Commission has expedited the processing of Salt River's application. We note that Salt River assisted this processing by filing its application in

compliance with the applicable filing requirements, provided the cash flow and net present value analysis with its application, and responded promptly to the Commission Staff's data request.

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

1. The proposed loan, from either CFC or CoBank, is for lawful objects within the corporate purposes of Salt River, 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. Salt River is capable of executing its notes as security for the loan as stated herein.

3. Within 10 days of the finalization of the refinancing transaction, Salt River should notify the Commission in writing of the exact amount of the new loan and which lender was selected. Salt River should include with the notice an updated analysis reflecting the savings based on the actual amount of the new CFC or CoBank loan.

4. Within 10 days of the execution of the new CFC or CoBank loan documents, Salt River should file with the Commission 3 copies of the loan documents.

5. Salt River should undertake the proposed refinancing of its RUS debt only if it is beneficial to Salt River and savings are available. In the event Salt River determines that neither the CFC nor CoBank refinancing program will be beneficial or will provide savings, it should notify the Commission in writing within 10 days of reaching that determination.

6. The proceeds from the proposed loan should be used only for the lawful purposes set out in Salt River's application.

7. The terms and conditions of the new loan should be consistent with the CFC or CoBank refinancing program as described in Salt River's application.

IT IS THEREFORE ORDERED that:

1. Salt River is authorized to borrow up to \$14,442,188, but no more than the total RUS payoff, from either CFC or CoBank. The loan maturity dates and interest rates shall be in accordance with the selected refinancing program as described in Salt River's application.

2. Salt River is authorized to execute the loan documents as authorized herein.

3. Salt River shall comply with all matters set out in Findings 3 through 7 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 12th day of August, 2003.

By the Commission

ATTEST:


Executive Director