

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MEADE COUNTY RURAL)	
ELECTRIC COOPERATIVE CORPORATION FOR)	
AN ORDER AND CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY AUTHORIZING)	CASE NO.
APPLICANT TO EXECUTE A "SECURED)	2003-00310
PROMISSORY NOTE" NOT TO EXCEED)	
\$14,726,249.25 PURSUANT TO KRS 278.300)	
AND 807 KAR 5:001, SECTION 11 AND)	
RELATED SECTIONS)	

O R D E R

On August 13, 2003, Meade County Rural Electric Cooperative Corporation (Meade County) filed its application for authority to issue a secured promissory note and loan agreement to the National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of \$14,726,249.25.¹ Meade County intends to use the proceeds from the CFC 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 \$7,526,015 over the life of the loan.² CFC approved the loan by letter on August 15, 2003, and requires that Meade County execute all applicable loan documents within 90 days of the August 15, 2003 date.³

¹ Application at 1.

² Application, Exhibit A, page 8 of 8.

³ Response to the Commission Staff's First Data Request dated August 15, 2003, Item 3.

As of June 30, 2003, Meade County's outstanding balance of RUS debt was \$18,798,121.94.⁴ The outstanding balance of RUS debt is made up of 2 percent fixed rate debt, 5 percent fixed rate debt, and variable rate debt. Meade County also has long-term debt with the Federal Financing Bank (FFB) and CFC. Meade County's outstanding balance of FFB debt was \$10,916,066.45⁵ and its outstanding balance of CFC debt was \$6,508,471.14.⁶

In light of historically low interest rates, CFC has developed a debt refinancing program that is being made available to electric cooperatives. Under this program, eligible RUS 5 percent fixed rate debt is refinanced with CFC long-term debt, which is comprised of a series of notes having various maturity dates. RUS determines a payoff amount that is comprised of principal and interest due on the debt eligible to be refinanced. The cooperative and CFC work together to determine the most beneficial mix of maturity dates in order to maximize the potential savings. The new CFC loan 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 loan. As part of the analysis performed by CFC, a cash flow analysis and a net present value analysis of the cash flows are prepared.

⁴ Application, Exhibit D.

⁵ Id. The FFB outstanding balance is as of June 30, 2003. The RUS is the guarantor of borrowings from the FFB.

⁶ Application, Exhibit E. The CFC long-term debt outstanding balance is as of August 6, 2003.

Of its total outstanding RUS debt, Meade County proposes to refinance \$14,726,249.25 under the CFC program.⁷ The CFC analysis prepared for Meade County reflects the use of both fixed and variable interest rates on the series of notes that will make up the new CFC loan.⁸ Meade County provided a cash flow analysis based on the \$14,726,249.25 amount that indicates it could save \$7,526,015 over the life of the loan.⁹ The cash flow analysis also indicates that the new CFC loan will be paid off in 11 years, rather than the 30 years remaining on the various RUS loans. Meade County also provided a net present value analysis of the cash flow. This analysis shows that the value of money interest rate can go as high as 7.50 percent and still show a positive net present value cash flow.¹⁰ While the final amount refinanced will not be determined until the refinancing transaction is completed, Meade County

⁷ The \$14,726,249.25 is based on a payoff calculation prepared by RUS with an effective date of August 29, 2003 and is composed of interest and principal due on the eligible RUS debt.

⁸ Application, Exhibit A, page 4 of 8. Under the terms of the CFC loan, Meade County has the ability to convert the interest rates from fixed to variable, but CFC requires the payment of a conversion fee. Meade County also has the ability to convert the interest rates from variable to fixed without the payment of a conversion fee. Meade County will consider a conversion in interest rates when it is to Meade County's advantage; however, Meade County does not anticipate a conversion from fixed to variable interest to be to its advantage. See Response to the Commission Staff's First Data Request dated August 15, 2003, Item 2(b).

⁹ Application, Exhibit A, pages 7 and 8 of 8. The cash flow analysis considered the difference in the principal and interest payments for RUS and CFC as well as the impact of CFC discounts available to Meade County, additional patronage payments Meade County would receive from CFC, and the purchase and amortization of CFC Capital Term Certificates (CTC). CFC usually requires borrowers to purchase CTC based on the financial condition of the borrower.

¹⁰ Application, Exhibit A, page 8 of 8.

stated that it would only borrow the amount needed to discharge the eligible RUS loans.¹¹

The Commission has reviewed the proposed refinancing and finds the proposal reasonable. Meade County has determined it can refinance all 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 Meade County for taking advantage of the financing alternatives available to it, and securing savings for itself and its member-consumers.

The final amounts of the RUS payoff and the new CFC loan will not be known until the refinancing transaction is finalized. Therefore, Meade County should provide the Commission with the exact amount of the new CFC loan within 10 days of finalizing the transaction. In addition, Meade County should provide an updated version of Exhibit A of its Application reflecting the detailed and summary comparison of cash flows and the net present value analysis of total loan payment cash flow for the new CFC loan.

In recognition of the volatility of interest rates and the potential impact that changes in the interest rates could have on the benefits of the CFC refinancing program, the Commission has expedited the processing of Meade County's application. We note that Meade County assisted this processing by filing its application in compliance with the applicable filing requirements, provided the cash flow and net

¹¹ Response to the Commission Staff's First Data Request dated August 15, 2003, Item 1.

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 loan from CFC is for lawful objects within the corporate purposes of Meade County, 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. Meade County 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, Meade County should notify the Commission in writing of the exact amount of the new CFC loan. Meade County should include with the notice an updated version of Exhibit A from its Application reflecting the savings based on the actual amount of the new CFC loan.

4. Within 10 days of the execution of the CFC secured promissory note and loan agreement, Meade County should file with the Commission 3 copies of the loan documents.

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

6. The terms and conditions of the new CFC loan should be consistent with the CFC refinancing program as described in Meade County's application.

IT IS THEREFORE ORDERED that:

1. Meade County is authorized to borrow up to \$14,726,249.25, but no more than the total RUS payoff, from CFC. The loan maturity dates and interest rates shall be in accordance with the CFC refinancing program as described in Meade County's application.

2. Meade County is authorized to execute the secured promissory note and loan agreement as authorized herein.

3. Meade 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 18th day of August, 2003.

By the Commission

ATTEST:



Executive Director