

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC	)	
COOPERATIVE FOR AN ORDER AND	)	
CERTIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY AUTHORIZING APPLICANT	)	CASE NO.
TO EXECUTE (1) A "SECURED PROMISSORY	)	2003-00319
NOTE" IN THE SUM OF \$22,965,325.00	)	
AND A (2) "LOAN AGREEMENT" IN FAVOR	)	
OF NATIONAL RURAL UTILITIES COOPERATIVE	)	
FINANCE CORPORATION	)	

O R D E R

On August 20, 2003, Owen Electric Cooperative, Inc. ( Owen ) 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 \$22,965,325.<sup>1</sup> Owen intends to use the proceeds from the CFC loan to refinance and discharge part of its indebtedness to the Rural Utilities Service ( RUS ) in order to obtain a lower interest rate and savings of approximately \$2,135,131 over the life of the loan.<sup>2</sup> CFC approved the loan by letter on July 3, 2003, and requires that Owen execute all applicable loan documents within 90 days of the July 3, 2003 date.<sup>3</sup>

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<sup>1</sup> Application at 1.

<sup>2</sup> Application, Exhibit 4, page 10 of 10.

<sup>3</sup> Application at 3.

As of June 30, 2003, Owen's outstanding balance of RUS debt was \$28,467,786.<sup>4</sup> The outstanding balance of RUS debt is made up of 2 percent fixed rate debt, 5 percent fixed rate debt, and variable rate debt. Owen also has long-term debt with the Federal Financing Bank ( FFB ) and CFC. Owen's outstanding balance of FFB debt was \$17,511,926<sup>5</sup> and its outstanding balance of CFC debt was \$13,126,727.<sup>6</sup>

Because of the 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.

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<sup>4</sup> Response to the Commission Staff's First Data Request dated August 22, 2003, Item 2.

<sup>5</sup> Id. The RUS is the guarantor of borrowings from the FFB.

<sup>6</sup> Application at 3.

Of its total outstanding RUS debt, Owen proposes to refinance \$21,948,774 under the CFC program.<sup>7</sup> Owen plans to select the fixed interest rate option on this loan.<sup>8</sup> Owen provided a cash flow analysis based on the \$21,948,774 amount that indicates it could save \$2,135,131 over the life of the loan.<sup>9</sup> The cash flow analysis also indicates that the new CFC loan will be paid off in 19 years, rather than the 26 years remaining on the various RUS loans. Owen 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 10.00 percent and still show a positive net present value cash flow.<sup>10</sup> While the final amount refinanced will not be determined until the refinancing transaction is completed, Owen stated that it would only borrow the amount needed to discharge the eligible RUS loans.<sup>11</sup>

The Commission has reviewed the proposed refinancing and finds the proposal reasonable. Owen has determined it can refinance all of its RUS 5 percent fixed rate

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<sup>7</sup> Application, Exhibit 8. The \$21,948,774 is based on a payoff calculation as of August 29, 2003 prepared by RUS and is composed of interest and principal due on the eligible RUS debt.

<sup>8</sup> Application, Exhibit 4, page 3 of 10. The CFC Loan Scenario reflects the use of fixed interest rates. Approximately 99 percent of Owen's current CFC long-term debt bears a variable interest rate. See Application, Exhibit 7.

<sup>9</sup> Application, Exhibit 4, page 10 of 10. 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 Owen, additional patronage payments Owen 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.

<sup>10</sup> Id.

<sup>11</sup> Response to the Commission Staff's First Data Request dated August 22, 2003, Item 1.

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 Owen 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, Owen should provide the Commission with the exact amount of the new CFC loan within 10 days of finalizing the transaction. In addition, Owen should provide an updated version of Exhibit 4 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 Owen's application. We note that Owen 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 loan from CFC is for lawful objects within the corporate purposes of Owen, 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. Owen 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, Owen should notify the Commission in writing of the exact amount of the new CFC loan. Owen should include with the notice an updated version of Exhibit 4 from its application reflecting the savings based on the actual amount of the new CFC loan.

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

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

IT IS THEREFORE ORDERED that:

1. Owen is authorized to borrow up to \$22,965,325, 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 Owen's application.

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

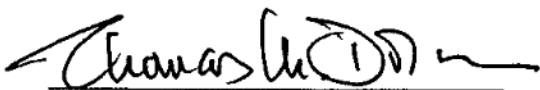
3. Owen shall comply with all matters set out in Findings 3 through 5 as if they were individually so ordered.

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 27<sup>th</sup> day of August, 2003.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Charles H. [unclear]", written over a horizontal line.

Executive Director