

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE NOLIN RURAL ELECTRIC )	
COOPERATIVE CORPORATION FOR AN ORDER )	
PURSUANT TO KRS 278.300 AND 807 KAR 5:001, )	
SECTION 11 AND RELATED SECTIONS )	CASE NO.
AUTHORIZING THE COOPERATIVE TO OBTAIN A )	2003-00351
LOAN IN THE AMOUNT OF \$4,111,770 FROM THE )	
NATIONAL RURAL UTILITIES COOPERATIVE )	
FINANCE CORPORATION )	

O R D E R

On September 19, 2003, Nolin Rural Electric Cooperative Corporation ( Nolin ) 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 \$4,111,770.<sup>1</sup> Nolin 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 \$514,560 over the life of the loan.<sup>2</sup> CFC approved the loan by letter on August 22, 2003, and requires that Nolin execute all applicable loan documents within 90 days of the August 22, 2003 date.<sup>3</sup>

As of June 30, 2003, Nolin s outstanding balance of RUS debt was \$13,465,155.<sup>4</sup> The outstanding balance of RUS debt is made up of 2 percent fixed rate debt, 5 percent

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<sup>1</sup> Application at 4.

<sup>2</sup> CFC Summary Comparison of Cashflows for Nolin, Portfolio 3.

<sup>3</sup> Application at 4.

<sup>4</sup> Application, Exhibit 4, line 36.

fixed rate debt, and variable rate debt. Nolin also has long-term debt with the Federal Financing Bank ( FFB ) and CFC. Nolin s outstanding balance of FFB debt was \$12,513,185<sup>5</sup> and its outstanding balance of CFC debt was \$8,624,060.<sup>6</sup>

Because 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.

Of its total outstanding RUS debt, Nolin proposes to refinance \$4,111,770 under the CFC program.<sup>7</sup> The CFC analysis prepared for Nolin reflects the use of fixed

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<sup>5</sup> Id., line 38. The RUS is the guarantor of borrowings from the FFB.

<sup>6</sup> Id., line 40.

<sup>7</sup> While Nolin s application seeks approval of \$4,111,770, the analysis prepared by CFC as Portfolio 3 is based on a new loan of \$3,915,972. The \$3,915,972 reflects loan balances as of August 31, 2003.

interest rates on the series of notes that will make up the new CFC loan.<sup>8</sup> Nolin provided a cash flow analysis based on \$3,915,972 that indicates it could save \$514,560 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 9 years, rather than the 15 years remaining on the various RUS loans. Nolin 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.<sup>10</sup> While the final amount refinanced will not be determined until the refinancing transaction is completed, Nolin 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. Nolin has determined it can refinance most 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 Nolin for taking

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<sup>8</sup> CFC Loan Scenario for Nolin, Portfolio 3. Nolin will have the ability to convert the interest rates to or from a fixed or variable interest rate under the same conditions as any existing loans with CFC. See Response to the Commission Staff's First Data Request dated September 24, 2003, Item 2.

<sup>9</sup> CFC Summary Comparison of Cashflows for Nolin, Portfolio 3. 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 Nolin, additional patronage payments Nolin 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 September 24, 2003, Item 1.

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, Nolin should provide the Commission with the exact amount of the new CFC loan within 10 days of finalizing the transaction. In addition, Nolin should provide an updated version of the CFC Analysis of Portfolio 3 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 Nolin's application. We note that Nolin assisted this processing by filing its application in compliance with the applicable filing requirements, provided the cash flow and net present value analysis, 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 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. Nolin is capable of executing its notes as security for the loan as stated herein.

3. Within 10 days of finalizing the refinancing transaction, Nolin should notify the Commission in writing of the exact amount of the new CFC loan. Nolin should include with the notice an updated version of the CFC Analysis of Portfolio 3 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, Nolin 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 Nolin's application.

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

IT IS THEREFORE ORDERED that:

1. Nolin is authorized to borrow up to \$4,111,770, 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 Nolin's application.

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

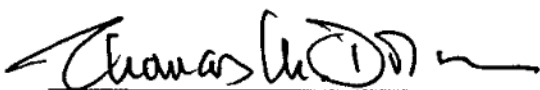
3. Nolin shall comply with all matters set out in Findings 3 through 6 as if they were individually so ordered.

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 2<sup>nd</sup> day of October, 2003.

By the Commission

ATTEST:

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

Executive Director

Case No. 2003-00351