

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND VALLEY)
ELECTRIC, INC. FOR AUTHORIZATION TO)
BORROW \$2,892,121 FROM COBANK AND) CASE NO.
TO EXECUTE NECESSARY NOTES TO PREPAY) 2013-00018
COOPERATIVE FINANCE CORPORATION NOTES)
OF THE SAME AMOUNT)

ORDER

On January 14, 2013, Cumberland Valley Electric, Inc. ("CVE") filed its application for authority to execute notes to CoBank, ACB ("CoBank") in the amount of \$2,892,121.¹ By letter dated January 18, 2013, the Commission notified CVE that all filing requirements were satisfied and considered the application filed as of January 14, 2013.

CVE intends to use the proceeds from the CoBank loan to refinance and discharge all of its indebtedness to the Cooperative Finance Corporation ("CFC"). Due to the lower interest rate offered by CoBank, CVE projects a lifetime cash flow savings of approximately \$446,177 over the life of the loan.² CVE has indicated that CoBank has not approved or issued a commitment for the proposed loan.³

¹ App. at ¶ 7.

² App., Ex. 2, Att. B, p. 1.

³ *Id.*, p. 6.

As of November 30, 2012, CVE's outstanding balance of CFC debt was \$2,892,121,⁴ which is made up of debt with interest rates varying from 4.5 percent to 6.45 percent. CVE also has outstanding long-term debt with Rural Utilities Service in the amount of \$3,585,071 at interest rates varying from .025 percent to 5.375 percent.⁵ In addition, CVE has outstanding long-term debt with National Cooperative Services Corporation in the amount of \$2,649,841 at interest rates at varying from 1.85 percent to 4.3 percent.⁶ Finally, CVE has outstanding debt with Federal Financing Bank in the amount of \$30,334,196 at interest rates varying from .095 to .138 percent.⁷

CVE proposes to execute five notes in conjunction with the borrowing from CoBank at interest rates varying from 1.96 percent to 3.68 percent. The five new CoBank notes would be amortized over 1-, 3-, 8-, 9-, and 18-year periods and will be approximately equal to or less than the maturity of the debt being refinanced.⁸ CVE provided a cash flow analysis based on the \$2,892,121 amount that indicates it could save \$446,177 over the life of the loans.⁹ The net present value of the cash flow savings was provided as part of the analysis prepared by CoBank for CVE. CoBank determined that the refinancing would result in a net present value cash flow of \$143,191.¹⁰

⁴ App., Ex. 1, Att. A, p. 2.

⁵ App., Ex. 1, Att. A, p. 1.

⁶ App., Ex. 1, Att. A, p. 3.

⁷ App., Ex. 1, Att. A, p. 4.

⁸ App. at ¶ 7.

⁹ App., Ex. 2, Att. B, p. 1.

¹⁰ The net cash flow computation was provided on January 28, 2013 in response to a request at the January 22, 2013 Telephonic Informal Conference held between CVE and Commission Staff.

CVE proposes to refinance its total outstanding CFC debt of \$2,892,121 with CoBank.¹¹ CVE has fixed this amount with CoBank through March 4, 2013. CVE requested expedited Commission approval of its proposal in order to close the refinancing offer prior to that date.¹² CVE has noted that as long as the Order approving the financing is issued by February 20, 2013, the proposed refinancing could be closed by March 4, 2013.¹³

The Commission has reviewed the proposed refinancing and finds CVE's proposal to be reasonable based on CVE's determination that it can refinance its total outstanding CFC debt at a lower effective interest rate and experience cash flow savings over the period of the loans. The Commission commends CVE for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

The final amounts of the CFC payoff and the new CoBank loan will not be known until the refinancing transaction is finalized. Therefore, CVE should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, CVE should provide an updated version of Exhibit 2 of its application reflecting the cash flow, the net effective interest rates, and a net present-value analysis of the cash flow for the new CoBank loans.

¹¹ App. at ¶ 7.

¹² App., Cover Letter and ¶ 8. Because it has fixed the amount for the CoBank loan, CVE expects the actual payoff to be very close to \$2,892,121. It's possible that the payoff will actually be lower, depending on the time required to secure Commission approval and any payments made in the meantime.

¹³ Informal Conference Memorandum, January 22, 2013.

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 CoBank refinancing program, the Commission has expedited the processing of CVE's application.

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

1. The loan from CoBank is for lawful objects within the corporate purposes of CVE, 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. CVE should execute its note as security for the proposed loan in the manner described in its application.

3. The proceeds from the proposed loan should be used only for the lawful purposes set out in CVE application.

4. The terms and conditions of the new CoBank loan should be consistent with the CoBank refinancing program as described in CVE's application.

IT IS THEREFORE ORDERED that:

1. CVE is authorized to execute notes to CoBank to borrow no more than \$2,892,121 for the purpose of refunding the outstanding indebtedness as described in its application, but only under such terms and conditions as will produce both positive gross savings and net present value savings. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in CVE's application.

2. If the actual terms and conditions of the CoBank notes differ from those set forth in its application, CVE shall, within 10 days of executing the agreement, file with the Commission amortization schedules and work papers showing the actual gross savings and net present value savings that will result from the refinancing.

3. CVE shall execute the CoBank loan documents as authorized herein.

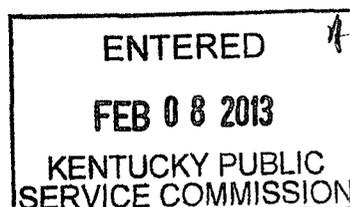
4. Within 10 days of finalizing the refinancing transaction, CVE shall notify the Commission in writing of the exact amount of the new CoBank loan.

5. Within 10 days of the execution of the new CoBank loan documents, CVE shall file with the Commission three copies of the loan documents.

6. Any documents filed pursuant to Ordering paragraphs 2, 4, and 5 shall reference this case number and shall be retained in the utility's general correspondence file.

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.

By the Commission



ATTEST:

Executive Director

Honorable W. Patrick Hauser
Attorney At Law
P. O. Box 1900
Barbourville, KENTUCKY 40906