

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NOLIN RURAL ELECTRIC)	
COOPERATIVE CORPORATION FOR AN)	
ORDER PURSUANT TO KRS 278.300 AND 807)	
KAR 5:001, SECTION 11 AND RELATED)	CASE NO.
SECTIONS AUTHORIZING THE COOPERATIVE)	2013-00119
TO OBTAIN A LOAN NOT TO EXCEED THE)	
AMOUNT OF \$64,000,000.00 FROM THE)	
NATIONAL RURAL UTILITIES COOPERATIVE)	
FINANCE CORPORATION)	

ORDER

On March 27, 2013, Nolin Rural Electric Cooperative Corporation ("Nolin") tendered its application seeking authorization to obtain a loan from National Rural Utilities Cooperative Finance Corporation ("CFC") in the amount of \$64,000,000.¹ The proceeds of the loan will be used to finance a project to install electrical generation facilities at the Fort Knox military base. By letter dated April 2, 2013, the Commission notified Nolin that its financing application was rejected as deficient for failing to include the information necessary to satisfy the filing requirements set forth in 807 KAR 5:001, Sections 12(6) and 17(2). On April 15, 2013, Nolin filed the information necessary to cure the deficiencies and the application was deemed filed as of that date. On June 7, 2013 an order was issued, pursuant to KRS 278.300(2), continuing the Commission's review of the instant financing application beyond the 60-day statutory period due to the timing of Nolin's request for an informal conference to be held on June 24, 2013. An informal conference was held on June 24, 2013 in order to allow representatives from

¹ Application at p.3.

Nolin and Fort Knox to provide a detailed overview of the proposed construction of generation units at the Fort Knox military base and the relationship of that construction project to the CFC loan.

Nolin is responsible for the operation of the electrical distribution facilities at the Fort Knox military base pursuant to the Fort Knox Privatization Contract entered into between Nolin and the United States of America, on behalf of the United States Army. As part of that contract Nolin has entered into an Energy Security and Power Efficiency Project ("ESPEP") with the United States Army. Under the ESPEP, Nolin has executed a modification agreement with the United States Army, known as P00081, concerning the installation of 44 MW of additional power generation across five different electrical substations at the Fort Knox military base. Under P00081, Nolin would be required to enter into a loan arrangement with CFC for the purpose of providing the necessary funding for the United States Army to purchase the generation assets.

The generation assets will comprise 16 MW of natural gas generators, 8 MW of natural gas generators in a combined heat and power cycle, and 20 MW of diesel emergency backup generators. The generators will be operated for peak shaving on a day-to-day basis and will be available for use in emergencies. This project will allow the Army to make Fort Knox more energy independent and also to save energy by controlling energy-demand peaks.

Nolin states that it will execute a 25-year promissory note with CFC secured by a mortgage on all real estate owned by Nolin and by an assignment of the contractual

rights under which Nolin conducts its business with Fort Knox (collectively, "Loan Documents"). The interest rate will be the current CFC long-term variable rate in effect on the date draws are made on the promissory note. The rate at the time of the application was 2.9 percent. CFC has given Nolin its commitment to provide a secured credit facility up to \$64,000,000.² Under the terms of the privatization contract, Fort Knox will reimburse Nolin all principal and interest payments associated with the loan. Nolin will also receive a construction fee in addition to the principal and interest payments. Fort Knox will own the equipment to be constructed as a result of this project. Nolin stated that it initially considered acquiring a lien accommodation on the project assets, but deemed it unnecessary, given that the loan is guaranteed by the full faith and credit of the United States government and thus, the likelihood of a default on the contract would be highly unlikely. Nolin further indicated that the federal government would not be agreeable to a lien accommodation and that CFC has not stipulated that one be acquired.

Having reviewed the application, the Commission finds that Nolin's proposed financing is reasonable and for a proper purpose. The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The loan from CFC is for lawful objectives 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 should execute its note with CFC as security for the proposed loan in the manner described in its application.

² Application, Exhibit 4.

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

4. Within ten days of the execution of the CFC Loan Documents,³ Nolin should file with the Commission three copies of the Loan Documents.

IT IS THEREFORE ORDERED that:

1. The loan from CFC as described in Nolin's application is approved.

2. Nolin shall execute its note with CFC as security for the proposed loan in the manner described in its application.

3. The proceeds from the proposed loan shall be used only for the lawful purposes set out in Nolin's application.

4. Nolin shall file with the Commission three copies of the executed CFC Loan Documents, not previously filed with the Commission, within ten days of the execution of the loan.

5. Any documents filed pursuant to ordering paragraph 4 of this Order shall reference the number of this case 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.

³ On July 30, 2013, Nolin filed with the Commission the Restated Mortgage and Security Agreement, dated June 13, 2013.

By the Commission

ENTERED
AUG 06 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2013-00119

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