

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In re the Matter of:**

**APPLICATION OF FLEMING-MASON ENERGY )**  
**COOPERATIVE, INC. FOR AUTHORIZATION TO )**  
**BORROW \$14,309,162 FROM COBANK AND )**  
**EXECUTE NECESSARY NOTE AND TO REPAY )**  
**RURAL UTILITIES SERVICE TREASURY NOTES )**  
**OF THE SAME AMOUNT )**

**CASE NO.**  
**2015-00013**

**RESPONSES TO COMMISSION STAFF'S**  
**REQUEST FOR INFORMATION**  
**FROM THE TELEPHONIC INFORMAL CONFERENCE CALL**  
**OF MARCH 30, 2015**

The undersigned, Joni Hazelrigg, President and CEO, of Fleming-Mason Energy Cooperative, Inc., being first duly sworn, states that the responses herein supplied in Case No. 2015-00013, Commission Staff's Request for Information dated March 30, 2015, are true to the best of my knowledge and belief formed after reasonable inquiry.

Dated: April 1, 2015

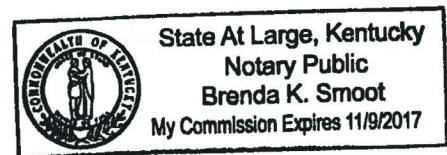
Fleming-Mason Energy Cooperative, Inc.

By: Joni K Hazelrigg  
President & CEO

Subscribed, sworn to, and acknowledged before me by Joni Hazelrigg, President & CEO, of Fleming-Mason Energy Cooperative, Inc., on behalf of said Corporation this 1<sup>st</sup> day of April, 2015.

Witness my hand and official seal this 1st day of April, 2015.

Brenda K Smoot  
Notary Public, State-At-Large



My Commission expires 11/9/17

1. Provide a calculation of the net present value of the savings resultant from the refinancing.

**RESPONSE:** See Attachment A

2. Breakdown of the costs expected to be incurred in closing the loan.

**RESPONSE:**

Legal Cost & Recording Fees      \$2000

3. Provide a copy of the CoBank approval letter.

**RESPONSE:** See Attachment B

4. Explain the final payment date, Weighted Average Life, and 1 Year Average Loan Balance columns on Exhibit 3, attachment B, page 4 of 10.

**RESPONSE:**

**Final Payment date:** These loans all originated from RUS from a work plan approved in the mid-2004 time frame. RUS loans have a payback time of 35 years from the origination date so all loans are calculated to be paid off in 2039.

**Weighted Average Life:** RUS requires affirmation when a loan is being prepaid, that the new loan does not exceed the current loan's weighted average life. : The new CoBank 15 year loan has a weighted average life of approximately 8.1 years which is less than the current RUS loans which is approximately 14 years. This is acceptable by the RUS as they do not want a new (refinance) loan's weighted average life to exceed the existing life.

**1 Year Average Loan Balance:** The 1 year average loan balance is shown and used to compute the annual patronage payments. To calculate take the 1 year average loan balance and multiply it by CoBank's annual patronage rate of 1%. Take this result and multiply it by 75% to obtain the cash patronage portion and the remaining 25% is the equity portion earned for the year.

## **Executive Summary**

**Fleming-Mason Energy Cooperative (Fleming-Mason) currently holds seven notes totaling approximately \$14.3 million in RUS debt at interest rates that range from 1.62% to 5.18% (blended interest rate of 4.42%) which would qualify for CoBank refinancing at a life time fixed rate currently of 3.26%. At such a rate, CoBank's patronage refunds would result in an effective rate of approximately 2.39%, an effective savings of 87 basis points. The total projected savings amounts to \$6,332,159 with a present value of \$1,951,218. CoBank requests Fleming-Mason's consideration as lender for these loans. Such refinancing of mortgage debt is permitted by RUS under the regulations outlined in 7 CFR Part 1786.**

**We have enclosed for your review a profile of existing eligible notes including a comparison of savings opportunity (Tab 1), a side by side comparison of the RUS loans' interest cost versus CoBank's loan interest cost and patronage payments (Tab 2), an analysis of CoBank's Patronage Refunds, Capital Plan and Effective Cost of Borrowing (Tab 3).**

**We propose to consolidate the seven RUS notes into a single note with a principal repayment tenor of 15 years versus the RUS consolidated notes' remaining life of 24 years. Shortening the life of these notes to fifteen years would not dramatically increase your total debt service and will provide for a greater lifetime interest expense savings.**

**CoBank is pleased to have this opportunity to present this information as part of its effort to find innovative ways for Fleming-Mason to enhance its success. This booklet is not a commitment to lend or an offer to make a loan. A commitment shall be in the form of a loan agreement upon receipt of an acceptable application, resolution, and other documentation as required by CoBank. Thank you for your consideration.**

**RUS notes proposed for refinancing:**

**Loan Balances as of 5/31/2015**

<b>Note ID</b>	<b>Principal Balance</b>	<b>Final Payment Date</b>	<b>Years Remaining</b>	<b>Weighted Average Life</b>
18370	1,718,117.00	07/31/2039	24.18	14.13
18371	3,451,559.00	08/31/2039	24.27	14.27
18372	2,606,347.00	07/31/2039	24.18	14.30
18373	1,740,743.00	08/31/2039	24.27	14.33
18374	1,763,415.00	07/31/2039	24.18	14.44
18375	1,684,083.00	08/31/2039	24.27	12.69
18376	1,344,898.00	08/31/2039	24.27	13.97
<b>Totals</b>	<b>14,309,162.00</b>		<b>24.27</b>	<b>14.07</b>

**Interest Savings (over life of notes):**

<b>Total Interest RUS @ 4.42% Blended Rate</b>	<b>Total Interest CoBank @ 3.26%</b>	<b>Total Savings</b>
<b>\$9,007,466</b>	<b>\$3,835,948</b>	<b>\$5,171,518</b>
<b>CoBank Cash Patronage Refund:</b>		<b>\$870,481</b>
<b>CoBank Stock Patronage Refund:</b>		<b>\$290,160</b>
<b>Total Life Time Benefit:</b>		<b>\$6,332,159</b>
<b>Present Value of Benefit (discounted @ 4.42%)</b>		<b>\$1,951,218</b>

There are no prepayment penalties arising from prepayment of RUS debt.



5500 South Quebec Street  
Greenwood Village, CO 80111  
800-542-8072  
www.cobank.com

March 11, 2015

Ms. Joni Hazelrigg  
CEO  
Fleming-Mason Energy Cooperative  
1449 Elizaville Rd.  
Flemingsburg, KY 41041

Dear Joni,

I am writing to inform you of CoBank's interest in providing long-term secured financing for Fleming-Mason Energy Cooperative in an amount up to \$14,309,162.00 for the purpose of prepaying or buying out of your RUS notes. The facility will be structured as a single advance term loan with the availability ending at the time of the RUS payoff. The facility was approved by the CoBank loan committee in January, 2015. CoBank's decision to extend credit to the Company is contingent upon completion to CoBank's satisfaction of all necessary due diligence and the preparation of final documentation in form and substance satisfactory to CoBank. A commitment by CoBank will exist only if a formal, written commitment letter or definitive loan documents are prepared and executed by CoBank and the Company, and not otherwise. We will send loan documentation to you under separate cover for execution.

If you have any questions, please contact me at 770.618.3276. CoBank appreciates the opportunity to do business with you and looks forward to serving your financial needs in the future.

Best regards,

A handwritten signature in blue ink that reads "Bill LaDuca".

Bill LaDuca  
Vice President & Lead Relationship Manager