

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF TAYLOR COUNTY RURAL)	
ELECTRIC COOPERATIVE CORPORATION)	
FOR AUTHORIZATION TO BORROW)	CASE NO.
\$5,420,315.37 FROM COBANK AND EXECUTE)	2010-00296
NECESSARY NOTES AND TO PREPAY RURAL)	
UTILITIES SERVICE'S 5 PERCENT NOTES IN)	
THE SAME AMOUNT)	

O R D E R

On July 12, 2010, Taylor County Rural Electric Cooperative Corporation (“Taylor County RECC”) filed its application for authority to execute notes to CoBank, ACB (“CoBank”) in the amount of \$5,420,315.37.¹ Pursuant to the requirements of 807 KAR 5:001, Section 8(3), the application referred to a prior proceeding in which Taylor County RECC filed its articles of incorporation. However, while the case number was referenced (92-080), the case style was not, making the application incomplete. On July 21, 2010, the Commission addressed the deficiency by issuing an Order upon its own motion, pursuant to 807 KAR 5:001, Section 4(3), and 807 KAR 5:001, Section 14, granting Taylor County RECC a deviation from the requirements of 807 KAR 5:001, Section 8(3). Thus, the application was determined to be compliant with all filing requirements as of July 21, 2010.

¹ Application at 2.

Taylor County RECC intends to use the proceeds from the CoBank loan to refinance and discharge part of its indebtedness to the Rural Utilities Service (“RUS”). Due to the lower interest rate offered by CoBank, Taylor County RECC projects a lifetime cash-flow savings of approximately \$548,491 over the life of the loan.² Taylor County RECC has indicated that CoBank has not approved or issued a commitment for the proposed loan.³

As of May 31, 2010, Taylor County RECC’s outstanding balance of RUS debt was \$13,198,322.⁴ The outstanding balance of RUS debt is made up of debt with interest rates varying from .37 percent to 5.37 percent. Taylor County RECC also has outstanding long-term debt with CoBank in the amount of \$5,521,373.97 at interest rates varying from 5.64 percent to 6.95 percent.⁵ The application does not identify whether the outstanding loans are fixed or variable.

Of its total outstanding RUS debt, Taylor County RECC proposes to refinance \$5,420,315.37 under the CoBank program.⁶ Taylor County RECC has fixed this amount with CoBank through August 31, 2010. However, Taylor County RECC requested expedited approval by August 17, 2010 in order to close the refinancing offer

² Application at 3.

³ Application, Exhibit 2, Attachment B, page 2.

⁴ Application, Exhibit 1, Attachment C, page 1.

⁵ Application, Exhibit 1, Attachment A, page 1. The outstanding balance of CoBank debt reflects the sum of lines 30 through 39.

⁶ This is the amount of Taylor County RECC’s 5 percent RUS debt.

by August 31, 2010.⁷ Taylor County RECC proposes to execute one note in conjunction with borrowing from CoBank at a fixed interest rate of 4.52 percent. The new CoBank loan would be amortized for a period of 18 years.⁸ The average remaining life of the RUS notes selected for repayment is 18 years. Taylor County RECC provided a cash-flow analysis based on the \$5,420,315.37 amount that indicates it could save \$548,491 over the life of the loan.⁹ The net present value of the cash-flow savings was provided as part of the analysis prepared by CoBank for Taylor County RECC. CoBank determined that the fixed interest rate would result in a positive net present value cash flow of \$366,936.¹⁰

The Commission has reviewed the proposed refinancing and finds Taylor County RECC's proposal reasonable. Taylor County RECC has determined that it can refinance a portion of its RUS 5 percent fixed-rate debt at a lower effective interest rate and experience cash-flow savings over the period of the loan. The Commission commends Taylor County RECC for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

The final amounts of the RUS payoff and the new CoBank loan will not be known until the refinancing transaction is finalized. Therefore, Taylor County RECC should

⁷ Application, Exhibit 2, Attachment B, Tab 3, page 2. Because it has fixed the amount for the CoBank loan, Taylor County RECC expects the actual payoff to be very close to \$5,420,315.37. In the event the actual payoff of the RUS loans is different, Taylor County RECC proposes to adjust any difference through its line-of-credit agreement with CoBank. See Application at 2.

⁸ Id.

⁹ Application, Exhibit 2, Attachment B, Tab 1, page 2.

¹⁰ Id.

provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, Taylor County RECC should provide an updated version of Exhibit 2, Attachment B, Tab 1, page 2 of its application reflecting the cash flow and the net present value analyses of the cash flow for the new CoBank 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 CoBank refinancing program, the Commission has expedited the processing of Taylor County RECC'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 Taylor County RECC, 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. Taylor County RECC shall execute its note as security for the proposed loan in the manner described in its application.

3. Within 10 days of finalizing the refinancing transaction, Taylor County RECC shall notify the Commission in writing of the exact amount of the new CoBank loan. Taylor County RECC shall include with the notice an updated version of Exhibit 2, Attachment B, Tab 1, page 2 from its application reflecting the savings based on the actual amount of the new CoBank loan.

4. Within 10 days of the execution of the new CoBank loan documents, Taylor County RECC shall file with the Commission three copies of the loan documents.

5. The proceeds from the proposed loan shall be used only for the lawful purposes set out in Taylor County RECC's application.

6. The terms and conditions of the new CoBank loan shall be consistent with the CoBank refinancing program as described in Taylor County RECC's application.

IT IS THEREFORE ORDERED that:

1. Taylor County RECC is authorized to borrow up to \$5,420,315.37, but no more than the total RUS payoff for the 5 percent debt, from CoBank. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in Taylor County RECC's application.

2. Taylor County RECC shall execute the CoBank loan documents as authorized herein.

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

4. Any documents filed in the future pursuant to Findings 3 and 4 herein 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

ENTERED
AUG - 6 2010
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


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