

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|  |   |            |
|--|---|------------|
| APPLICATION OF FLEMING-MASON ENERGY      | ) |            |
| COOPERATIVE, INC. FOR AUTHORIZATION      | ) |            |
| BORROW \$6,649,696 FROM COBANK AND       | ) | CASE NO.   |
| EXECUTE NECESSARY NOTES AND TO PREPAY    | ) | 2010-00337 |
| RURAL UTILITIES SERVICES 5 PERCENT NOTES | ) |            |
| OF THE SAME AMOUNT                       | ) |            |

O R D E R

On August 19, 2010, Fleming-Mason Energy Cooperative, Inc. ("FME") filed its application for authority to execute notes to CoBank, ACB ("CoBank") in the amount of \$6,649,696.<sup>1</sup> By letter dated August 26, 2010, the Commission notified FME that all filing requirements were satisfied and the application was considered filed as of August 19, 2010.

FME 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, FME projects a lifetime cash-flow savings of approximately \$1,826,628 over the life of the loan.<sup>2</sup> FME has indicated that CoBank has not approved or issued a commitment for the proposed loan.<sup>3</sup>

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<sup>1</sup> Application at ¶ 7.

<sup>2</sup> Application at ¶ 13.

<sup>3</sup> Application, Exhibit 3, Attachment B, page 1.

As of June 30, 2010, FME's outstanding balance of RUS debt was \$22,511,973,<sup>4</sup> which is made up of debt with interest rates varying from 3.92 percent to 5.18 percent. FME also has outstanding long-term debt with National Rural Utilities Cooperative Finance Corporation in the amount of \$3,119,251 at interest rates varying from 5.75 percent to 5.9 percent.<sup>5</sup> In addition, FME has outstanding long-term debt with Federal Financing Bank in the amount of \$21,137,348 at variable interest rates, currently at .277 percent.<sup>6</sup> Finally, FME has outstanding debt with RUS Rural Economic Development Loan and Grant Program in the amount of \$672,163 at a zero interest rate.<sup>7</sup>

Of its total outstanding RUS debt, FME proposes to refinance \$6,649,696 under the CoBank program.<sup>8</sup> FME has fixed this amount with CoBank through October 18, 2010. FME requested expedited approval in order to close the refinancing offer by October 18, 2010.<sup>9</sup> FME proposes to execute one note in conjunction with the borrowing from CoBank at a fixed interest rate of 3.73 percent. The new CoBank loan would be amortized over a period of 10 years.<sup>10</sup> The average remaining life of the RUS

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<sup>4</sup> Application, Exhibit 2, Attachment A, Page 1.

<sup>5</sup> Application, Exhibit 1, Attachment A, Page 2.

<sup>6</sup> Id.

<sup>7</sup> Id.

<sup>8</sup> This is the amount of FME's five percent RUS debt.

<sup>9</sup> Application at 2. Because it has fixed the amount for the CoBank loan, FMC expects the actual payoff to be very close to \$6,669,646. In the event the actual payoff of the RUS loans is different, FME proposes to adjust any difference through its line of credit agreement with CoBank. See Application at ¶ 8.

<sup>10</sup> Id.

notes selected for repayment is 18.5 years. FME provided a cash flow analysis based on the \$6,649,696 amount that indicates it could save \$1,826,628 over the life of the loan.<sup>11</sup> The net present value of the cash flow savings was also provided as part of the analysis prepared by CoBank for FME. CoBank determined that the fixed interest rate would result in a positive net present value cash flow of \$601,101.<sup>12</sup>

The Commission has reviewed the proposed refinancing and finds FME's proposal to be reasonable. FME has determined that it can refinance a portion of its RUS five percent fixed-rate debt at a lower effective interest rate and experience cash flow savings over the period of the loan. The Commission commends FME 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, FME should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, FME should provide an updated version of Exhibit 3, Attachment B, Tab 2, Page 5 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 FME's application.

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<sup>11</sup> Application, Exhibit 3, Attachment B, Tab 2, Page 5.

<sup>12</sup> Id.

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 FME, 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. FME should 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, FME should notify the Commission in writing of the exact amount of the new CoBank loan. FME should include with the notice an updated version of Exhibit 3, Attachment B, Tab 2, Page 5 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, FME should file three copies of the loan documents with the Commission.

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

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

IT IS THEREFORE ORDERED that:

1. FME is authorized to borrow up to \$6,649,696, but no more than the total RUS payoff for the five percent debt, from CoBank. The loan maturity dates and

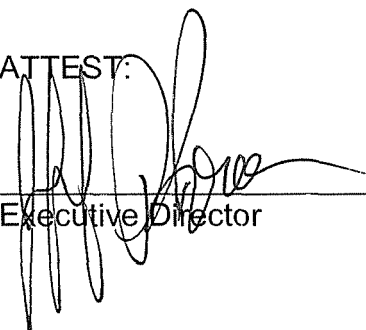
interest rates shall be in accordance with the CoBank refinancing program as described in FME's application.

- 2. FME shall execute the CoBank loan documents as authorized herein.
- 3. FME shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.
- 4. Any documents filed in the future pursuant to finding paragraphs 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

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SEP 10 2010  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:  
  
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