

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FLEMING-MASON	)	
ENERGY COOPERATIVE, INC. FOR	)	
AUTHORIZATION TO BORROW \$14,309,162	)	CASE NO.
FROM COBANK AND EXECUTE NECESSARY	)	2015-00013
NOTE AND TO REPAY RURAL UTILITIES	)	
SERVICE TREASURY NOTES OF THE SAME	)	
AMOUNT	)	

ORDER

On February 19, 2015, Fleming-Mason Energy Cooperative, Inc. ("Fleming-Mason") tendered for filing its application for authority to execute a note to CoBank in the amount of \$14,309,162.<sup>1</sup> By letter dated March 4, 2015, the Commission notified Fleming-Mason that its refinancing application was rejected as deficient because it did not include the information necessary to satisfy the filing requirements of 807 KAR 5:001, Section 14(2). On March 4, 2015, in response to the Commission's deficiency letter, Fleming-Mason provided the requested information and the Commission accepted the application for filing as of that date.

Fleming-Mason stated that it intends to use the proceeds from the CoBank loan to refinance and discharge all of its indebtedness to the Rural Utilities Service ("RUS"). Due to the lower interest rate offered by CoBank, Fleming-Mason projects a lifetime cash-flow savings of approximately \$6,332,159 over the life of the loan.<sup>2</sup>

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<sup>1</sup> Application at paragraph 7.

<sup>2</sup> Application at paragraph 13.

As of December 31, 2014, Fleming-Mason's outstanding balance of RUS debt was \$14,435,927. The outstanding balance of RUS debt is made up of debt with interest rates varying from 1.62 percent to 5.18 percent. Fleming-Mason also had outstanding debt with CoBank of \$4,068,819 at an interest rate of 3.73 percent; with National Rural Utilities Cooperative Finance Corporation in the amount of \$2,106,620 at interest rates varying from 3.10 percent to 5.95 percent; with Federal Financing Bank in the amount of \$25,164,337 at an interest rate of 0.325 percent; and with RUS Rural Economic Development Loan and Grant in the amount of \$935,253 at zero percent interest.<sup>3</sup>

The projected balance of RUS loans outstanding as of May 31, 2015, is estimated to be \$14,309,162,<sup>4</sup> which Fleming-Mason proposes to refinance with CoBank. The refinancing of the debt is permitted by RUS under Article II, Section 2.02, of the Mortgage.<sup>5</sup> Fleming-Mason expects the actual payoff to be very close to \$14,309,162. In the event the actual payoff of the RUS loans is different, Fleming-Mason proposes to adjust any difference via electronic payment to CoBank.<sup>6</sup> Fleming-Mason seeks expedited treatment of its application, requesting that an order be issued before the expiration of CoBank's offer on June 30, 2015.

Fleming-Mason proposes to execute one note in conjunction through borrowing from CoBank at a fixed interest rate of 3.26 percent. The new CoBank note will be

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<sup>3</sup> Application, Exhibit 2, Attachment A.

<sup>4</sup> *Id.*, Exhibit 3, Attachment B, p. 4 of 10.

<sup>5</sup> *Id.*, Exhibit 3, Attachment A, Resolution of Board of Directors.

<sup>6</sup> *Id.* at paragraph 8.

amortized for a period of 15 years.<sup>7</sup> The new CoBank note will also allow Fleming-Mason to pay off the RUS notes to be refinanced earlier than their maturity date.<sup>8</sup> The average remaining life of the RUS notes selected for refinancing is 24.27 years.<sup>9</sup>

Fleming-Mason provided a cash-flow analysis based on the \$14,309,162 loan amount that indicates it could save \$6,332,159 over the life of the loan.<sup>10</sup> The net present value of the cash-flow savings was provided as part of the analysis prepared by CoBank for Fleming-Mason. CoBank determined that the fixed interest rate would result in a positive net present value cash flow of \$1,951,218, discounted at the RUS blended interest rate of 4.42 percent.<sup>11</sup>

The Commission has reviewed the proposed refinancing and finds Fleming-Mason's proposal to be reasonable. Fleming-Mason has determined that it can refinance all of its RUS debt at a lower effective interest rate and experience cash-flow savings over the period of the loan. The Commission commends Fleming-Mason 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, Fleming-Mason should provide the Commission with the exact amount of the new CoBank loan within ten days of

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<sup>7</sup> *Id.* at paragraph 7.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*, Exhibit 3, Attachment B, p. 4 of 10.

<sup>10</sup> *Id.* at paragraph 13, and Exhibit 3, Attachment B, p. 4 of 10.

<sup>11</sup> Responses to Commission Staff's Request for Information from the Telephonic Informal Conference Call of March 30, 2015, Attachment A.

finalizing the transaction. In addition, Fleming-Mason should provide an updated version of the Application, Exhibit 3, Attachment B, reflecting the cash flow and the net present value analyses of the cash flow for the new CoBank loan.

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 Fleming-Mason, 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. Fleming-Mason should execute its note as security for the proposed loan in the manner described in its application.

3. Within ten days of finalizing the refinancing transaction, Fleming-Mason should notify the Commission in writing of the exact amount of the new CoBank loan. Fleming-Mason should include with the notice an updated version of the Application, Exhibit 3, Attachment B, reflecting the savings based on the actual amount of the new CoBank loan.

4. Within ten days of the execution of the new CoBank loan documents, Fleming-Mason should file with the Commission three copies of the loan documents

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

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

IT IS THEREFORE ORDERED that:

1. Fleming-Mason is authorized to borrow up to \$14,309,162, but no more than the total RUS payoff, from CoBank. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in Fleming-Mason's application.

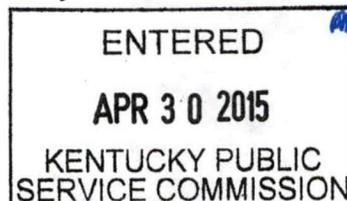
2. Fleming-Mason shall execute the CoBank loan documents as authorized herein.

3. Fleming-Mason shall comply with all matters set out in finding paragraphs 3 through 6 herein 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



ATTEST:

  
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Executive Director

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