

STATE OF MARYLAND
PUBLIC SERVICE COMMISSION

ORDER NO. 85617

IN THE MATTER OF THE APPLICATION
OF SOUTHERN MARYLAND ELECTRIC
COOPERATIVE, INC. FOR AUTHORITY
TO GUARANTEE A LOAN FOR SMECO
SOLAR LLC FROM THE FEDERAL
FINANCING BANK IN THE SUM OF
\$14,565,000

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BEFORE THE
PUBLIC SERVICE COMMISSION
OF MARYLAND

CASE NO. 9328

Issue Date: May 23, 2013

On April 17, 2013, the Southern Maryland Electric Cooperative, Inc. (“SMECO” or “Company”) filed with the Public Service Commission (“Commission”) an application for authorization to guarantee, on behalf of SMECO Solar LLC (“SMECO Solar”), a loan under which SMECO Solar will borrow an amount of up to \$14,565,000 from the Federal Financing Bank (“FFB”) and guaranteed as to payment by the United States of America, acting through the Administrator of the Rural Utilities Service (“RUS”). The proceeds of the loan will be used to finance the cost of constructing a new solar facility (“project”).¹ Included in the Application was an affidavit of three directors of SMECO required by Code of Maryland Regulations (“COMAR”) 20.70.04.02.²

In the Application, SMECO states that, pursuant to the RUS Loan Contract, SMECO Solar desires to execute a Future Advance Promissory Note (“FFB Note”)³ for a maximum principal amount of \$14,565,000. Under the FFB Note, FFB shall make an advance to the SMECO Solar upon written request. In the request, SMECO Solar shall select the date on which the advance is to mature, which shall not be less than one calendar year after the requested

¹ The Company provided an Affidavit of one of its electrical engineers attesting to the estimated cost of the project. Application, Exhibit I.

advance date. The final maturity date under the FFB note is December 31, 2033. The basic interest rate for the advance shall be established by FFB at the time of the advance based upon the U.S. Secretary of the Treasury's determination pursuant to section 6(b) of the Federal Financing Bank Act of 1973, as amended (codified at 12 U.S.C. § 2281 *et seq.*). The shortest maturity used as the basis for any rate determination shall be the remaining maturity of the most recently auctioned United States Treasury bills having the shortest maturity of all United States Treasury bills then being regularly auctioned.⁴

By memorandum dated May 14, 2013, the Commission's Technical Staff ("Staff") filed its comments regarding the matter. In its comments, Staff stated that it reviewed the Application to verify that the financial conditions of the Company and SMECO Solar are able to fully support the requirements of the new loan agreement with RUS. RUS sets financial coverage ratios for "distribution borrower" cooperatives such as SMECO to ensure that their debt service obligations can be fully maintained. RUS also sets financial coverage ratios for generation and transmission borrowers such as SMECO Solar. Staff stated that, currently, RUS is requiring financial ratios for "TIER" (Times Interest Earned Ratio); "OTIER" (Operating Times Interest Earned Ratio); "DSC" (Debt Service Coverage); and "ODSC" (Operating Debt Service Coverage), be set at a minimum of 1.25, 1.1, 1.25, and 1.1, respectively for SMECO and that TIER and DSC for SMECO Solar LLC be set at a minimum of 1.05 and 1.00, respectively. Staff also noted that RUS did not specify OTIER and ODSC ratios for SMECO Solar LLC in its Loan Contract. Because SMECO already has two loans approved with RUS and is required to

² Application, Exhibit 4.

³ Application, Exhibit 3.

⁴ SMECO Solar has an option to elect a prepayment/refinancing privilege for any advance with a maturity date of at least five years from the date of the advance. If the SMECO Solar LLC elects this option, then the interest rate for any such advance shall also include a price for the particular prepayment/refinancing privilege. Application at 3.

file coverage ratios on an annual basis, RUS did not specify revised ratios as a result of the Loan Contract. Therefore, Staff requested revised ratios from SMECO to ascertain whether the Company can in fact serve as guarantor of this new loan. Based on the calculated values for the TIER, OTIER, DSC, and ODSC as of March 31, 2013, Staff concluded that SMECO's TIER, OTIER, DSC, and ODSC of 2.199, 1.912, 1.944 and 1.798, respectively, exceed or meet the RUS's thresholds.

Based upon the Application and information provided by SMECO, Staff recommended that the Commission grant SMECO's request. Further, Staff recommended that SMECO should be directed to file reports as necessary to comply with COMAR 20.07.04.02C. Finally, Staff recommended that SMECO be provided three true test copies of the signed Order approving this request.

The matter was considered at the Administrative Meeting of May 22, 2013. After hearing from the Company and Staff on the matter, the Commission granted SMECO's Application as it found that the guarantee by SMECO on behalf of SMECO Solar as set forth in the Application is consistent with the public convenience and necessity.

IT IS THEREFORE, this 23rd day of May, in the year Two Thousand Thirteen, by the Public Service Commission of Maryland,

ORDERED: (1) That the Southern Maryland Electric Cooperative, Inc. is hereby authorized to guarantee the loan on behalf of SMECO Solar LLC from the Federal Financing Bank and guaranteed as to payment by the United States of America, acting through the Administrator Rural Utilities Service, in the amount up to \$14,565,000.00 for the purposes set forth in the Application;

(2) That the Southern Maryland Electric Cooperative is authorized to execute the RUS Guarantee (a copy of which was included in the Application as Exhibit 9) with a maximum principal amount of \$14,565,000.00 payable to the Federal Financing Bank, bearing interest at the rate as established by the Future Advance Promissory Note at the time of the advance to SMECO Solar LLC, and with a final maturity date under the Future Advance Promissory Note of December 31, 2033 for the purposes as specified in the Application; and

(3) That the Southern Maryland Electric Cooperative, Inc. shall file reports as necessary to comply with COMAR 20.07.04.02C.

By Direction of the Commission,

/s/ David J. Collins

David J. Collins
Executive Secretary