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## Kansas Co-ops Add 71,000 Consumers

Mid-Kansas Electric Company, LLC (MKEC)—a consortium of six electric distribution cooperatives that also are members of Sunflower Electric Power Corporation, a generation and transmission cooperative—signed closing documents Thursday that more than double the number of retail consumers served by the cooperatives.

The \$274 million transaction—which was financed by CFC and NCSC—represents the addition of more than 71,000 consumers located in 152 communities throughout 32 counties in central and western Kansas (see table).

Allan Miller, MKEC board chairman and manager of Prairie Land EC, said, “This was a once-in-a-lifetime opportunity that allows our group of electric cooperatives to more than double the number of consumers we serve. We couldn’t have done it without CFC, and are very grateful for the support and expertise they provided to MKEC’s proposal.”

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—Allan Miller, MKEC

### CONSUMER GROWTH

Cooperatives	Existing Consumers	MKEC Consumers	Total Consumers
Lane-Scott EC	2,988	2,572	5,560
Pioneer EC	15,296	17,163	32,459
Prairie Land EC	8,698	16,020	24,718
Victory EC Assn.	4,460	14,568	19,028
Western Co-op EA	5,064	6,280	11,344
Wheatland EC	16,957	14,632	31,589
<b>Combined</b>	<b>53,463</b>	<b>71,235</b>	<b>124,698</b>

Also included is the acquisition of 223 substations and 3,830 miles of distribution line; 1,083 miles of high-voltage transmission line and 1,510 miles of sub-transmission line; 381 mw of generation capacity; and a participation power agreement for 177 mw of energy from Westar Energy.

“CFC is delighted to work with the Kansas cooperatives,” said CFC Governor and CEO Sheldon C. Petersen, “and to play a role in helping to bring the cooperative business model to tens of thousands of new consumers.”

The agreement to purchase the assets from Aquila, Inc., an investor-owned utility, was approved in September 2005. This week’s closing followed regulatory approvals at the state and federal levels.

## First-Ever CFC Concurrent Loan Repaid

North Arkansas Electric Cooperative recently closed the book on a chapter of CFC history by making the final payment on the first long-term concurrent loan CFC approved and issued more than 35 years ago.

CFC was founded to supplement loans made by REA (now RUS), and this was generally done through concurrent loans. Concurrent loans are no longer as common, but CFC continues to offer them in connection with the RUS Municipal Rate Loan Program.



Mel Coleman

“North Arkansas Electric Cooperative is certainly pleased that we were able to establish a relationship with CFC back in 1971,” said North Arkansas CEO Mel Coleman. “The contribution and assistance CFC has provided over the years to the electric cooperatives is invaluable. Across this nation, many hundreds of cooperatives join with me in congratulating CFC in reaching this milestone, knowing that our partnership today is stronger than ever,” Coleman said. “Today we remain a strong supporter of CFC and its mission and continue to have a valued business relationship.”

In 1971, when the loan was issued, North Arkansas had roughly 12,500 members; today, there are more than 35,000 members. The loan for \$100,000 was issued at a rate of 7.5 percent (cut to 7 percent after CFC’s first bond issue), and North Arkansas made each of the payments—in the amount of \$1,900 quarterly—on time.

According to Billy Bryant, a 30-year former member of the board—whose father, Clyde, a former North Arkansas board president, signed the original loan papers—the cooperative used the money for capital improvements.

“That was when our cooperative started growing so fast it was unreal,” he said.

“They had to build distribution lines and substations.”

By the end of the fiscal year on June 30, 1971, CFC had approved 30 concurrent loans totaling \$12.8 million.



Former CFC Governor J.K. Smith (left) and REA Administrator David A. Hamil announce the first long-term concurrent loan at the NRECA Annual Meeting on February 16, 1971.

## FINANCIAL FEATURE

### The Fed Holds Steady Again

By Michelle Poyer, CFC Capital Markets Financial Analyst

On March 21, 2007, the Federal Reserve concluded its two-day Federal Open Market Committee (FOMC) meeting. The Fed voted unanimously to hold the federal funds rate steady at 5.25 percent, marking the sixth consecutive meeting where the rate had been left unchanged. Although the Fed's decision came as no surprise to the financial markets, the Fed did catch the financial community off guard by removing its tightening bias, which had been in place since the Fed stopped raising rates in 2006. While removing the tightening bias, the Fed added that its "predominant policy concern remains the risk that inflation will fail to moderate as expected." This change indicates that the Fed has adopted a balanced outlook on the future direction of interest rates based on inflation and economic data.

The Fed's view on economic conditions also changed. Recent economic indicators have caused the Fed to take a less optimistic view of the economy, particularly with regard to the housing market, stating, "The adjustment in the housing sector is ongoing," suggesting that the downward trend has not yet come to a halt. Housing market data released this month also warrant the Fed's concern. Total home sales are expected to drop by 490,000 units in 2007. The sub-prime mortgage market crisis, where the delinquency rate for conventional sub-prime mortgages jumped from 3 percent two years ago to 13.3 percent today, is expected to restrict credit at a time when credit is vital in keeping the housing market above water.

With economic growth expected to continue to slow, the Fed anticipates inflation will ease after slightly accelerating the past month. The Fed is expected to hold the federal funds rate steady at 5.25 for the remainder of 2007, according to economists at Moody's. On the other hand, the futures market is currently predicting a 63-percent chance of a 25-basis-point cut by the conclusion of the September FOMC meeting.

### In Brief

Moody's Investors Service said this week that TXU Corp.'s \$32 billion acquisition by a consortium of private equity investors will likely lead to a period of aggressive financing that could make it a deeply speculative-grade rated company, according to The Associated Press. The acquisition in its current state would likely cause the credit ratings of TXU and several of its subsidiaries to be downgraded by one or more notches, the agency said.

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President Bush nominated Federal Energy Regulatory Commission Chairman Joseph Kelliher to an additional five-year term on the commission, expiring June 30, 2012, and re-designated him chairman. Kelliher is scheduled to speak at CFC's Forum in Chicago in June.

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The Tennessee Valley Authority remains on track to bring its long-dormant Browns Ferry 1 nuclear facility back into commercial operation in May, according to SNL Energy Electric Utility Report. The revival of Unit 1, which has a 1,100 mw generating capacity, has been a multiyear, \$1.8-billion project.

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The U.S. economy grew at a 2.5-percent annual pace in the final three months of 2006, according to the Commerce Department. This is the third straight quarter with slower growth than the economy's long-term potential of about 3 percent.

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CFC will be partnering with NRECA and NRTC to offer the New CEO Orientation April 11-13 at the CFC headquarters in Herndon, Virginia. This session will provide an in-depth focus on key electric industry and cooperative management issues and challenges that new CEOs face. For more information about the program, visit the CFC Web site and click on Conferences then Other Meetings.

