

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF INTER-COUNTY ENERGY	)	
COOPERATIVE CORPORATION FOR	)	
AUTHORIZATION TO BORROW \$2,354,391	)	Case No.
FROM COBANK AND EXECUTE NECESSARY	)	2011-00439
NOTE AND TO PREPAY RURAL UTILITIES	)	
SERVICE 5 PERCENT NOTES OF THE SAME	)	
AMOUNT	)	

O R D E R

On November 4, 2011, Inter-County Energy Cooperative Corporation (“Inter-County”) submitted its application for authority to execute notes to CoBank, ACB (“CoBank”) in the amount of \$2,354,391.<sup>1</sup> By letter dated November 15, 2011, the Commission notified Inter-County the application was rejected as deficient because it did not include the information necessary to satisfy the filing requirements of 807 KAR 5:001, Section 6(5).

In response to the Commission’s filing deficiency letter, on November 21, 2011, Inter-County filed the information cited in the November 15, 2011 letter. The Commission accepted the information and considered the application filed as of November 21, 2011.

Inter-County 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

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

lower interest rate offered by CoBank, Inter-County projects a lifetime cash flow savings of approximately \$330,584.<sup>2</sup>

As of August 31, 2011, Inter-County's outstanding balance of RUS debt was \$25,597,066.<sup>3</sup> The outstanding balance of RUS debt is made up of debt with interest rates varying from .5 percent to 5.12 percent. Inter-County has outstanding long-term debt with National Rural Utilities Cooperative Finance Corporation ("CFC") in the amount of \$5,043,380 at interest rates varying from 6 percent to 6.5 percent.<sup>4</sup> Inter-County also has outstanding debt with Federal Financing Bank of \$22,853,082 with an interest rate of .021 percent.<sup>5</sup> Finally, Inter-County has outstanding long-term debt with CoBank in the amount of \$4,368,702 with an interest rate of 4.55 percent.<sup>6</sup>

Inter-County proposes to refinance with CoBank two RUS notes, each at an interest rate of 5 percent, having a total principal balance of \$2,354,391. The refinancing of the RUS secured debt is permitted by RUS under Article II, Section 2.02 of the RUS Mortgage.<sup>7</sup> Under the agreement Inter-County has with CoBank, the fixed

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<sup>2</sup> Application at paragraph 14.

<sup>3</sup> Application, Exhibit 2, Attachment A, page 1.

<sup>4</sup> Id.

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

<sup>6</sup> Application, Exhibit 2, Attachment A, page 2.

<sup>7</sup> Application, Exhibit 3, Attachment A.

rate expires December 30, 2011.<sup>8</sup> Inter-County has requested the Commission approve and rule on its petition for refinance on or before December 21, 2011, as the interest rate lock on this particular refinance expires December 30, 2011.<sup>9</sup>

Inter-County proposes to execute one note in conjunction with the borrowing from CoBank at a fixed interest rate of 4.48 percent. The new CoBank note will be amortized for a period of 17 years and will equal the average life of the debt being refinanced.<sup>10</sup>

Inter-County provided a cash flow analysis based on the \$2,354,391 amount that indicates it could save \$330,584.<sup>11</sup> The net present value of the cash flow savings was provided as part of the analysis prepared by CoBank for Inter-County. CoBank determined that the savings from refinancing would result in a positive net present value cash flow of \$214,012.<sup>12</sup>

The Commission has reviewed the proposed refinancing and finds Inter-County's proposal to be reasonable. Inter-County has determined that it can refinance a portion of its RUS debt at a lower effective interest rate and experience cash flow savings over

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<sup>8</sup> Application, page 2; and Application, Exhibit 3, Attachment B. Because it has fixed the amount for the CoBank loan, Inter-County expects the actual payoff to be very close to \$2,354,391. In the event the actual payoff of the RUS loans is different, Inter-County proposes to adjust any difference via electronic payment to CoBank, which will allow the note with CoBank to stay at \$2,354,391. See Application at paragraph 8.

<sup>9</sup> See Notice from Inter-County filed November 23, 2011.

<sup>10</sup> Application, paragraph 7.

<sup>11</sup> Application, paragraph 14.

<sup>12</sup> Id.

the period of the loan. The Commission commends Inter-County 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, Inter-County should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, Inter-County should provide an updated version of Exhibit 3, Attachment B, pages 4 through 16, 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 Inter-County's application. We note that Inter-County assisted this processing by providing the cash flow and net present value analysis with its 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 Inter-County, 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. Inter-County 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, Inter-County should notify the Commission in writing of the exact amount of the new CoBank loan. Inter-County should include with the notice an updated version of Exhibit 3, Attachment B, pages 4 through 16, of 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, Inter-County 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 Inter-County's application.

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

IT IS THEREFORE ORDERED that:

1. Inter-County is authorized to borrow up to \$2,354,391, 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 Inter-County's application.

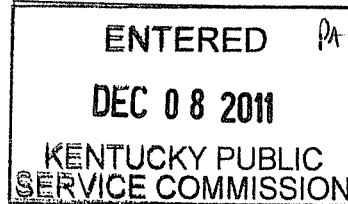
2. Inter-County shall execute the CoBank loan documents as authorized herein.

3. Inter-County shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

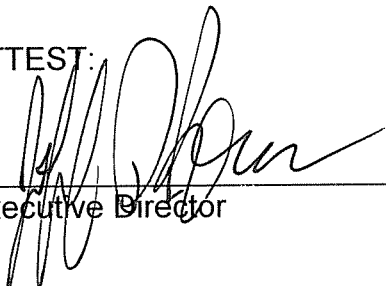
4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

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



ATTEST:



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Executive Director

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