

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JACKSON PURCHASE)	
ENERGY CORPORATION FOR)	CASE NO.
AUTHORIZATION TO REFINANCE FROM)	2011-00466
COBANK AND EXECUTE NECESSARY)	
NOTES)	

O R D E R

On November 30, 2011, Jackson Purchase Energy Corporation (“JPEC”) submitted its application for authority to execute notes to CoBank, ACB (“CoBank”) in the amount of \$9,403,475.¹ By letter dated December 6, 2011, the Commission notified JPEC that 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(6).

On December 12, 2011, in response to the Commission’s filing deficiency letter, JPEC filed the information cited in the December 6, 2011 letter. The Commission accepted the information and considered the application filed as of December 12, 2011.

JPEC 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, JPEC projects a lifetime cash flow savings of approximately \$1,686,899.²

¹ Application at paragraph 6.

² Application, Exhibit 1, page 2.

As of October 31, 2011, JPEC's outstanding balance of RUS debt was \$30,656,330.³ The outstanding balance of RUS debt is made up of debt with interest rates varying from 2.91 percent to 5.53 percent. JPEC has outstanding long-term debt with National Rural Utilities Cooperative Finance Corporation ("CFC") in the amount of \$588,791 with an effective interest rate 5.375 percent.⁴ JPEC also has outstanding debt with Federal Financing Bank of \$22,691,291 with interest rates varying from 2.071 percent to 5.283 percent.⁵ Finally, JPEC has outstanding long-term debt with CoBank in the amount of \$12,351,747 with interest rates varying from 3.87 percent (variable) to 4.9 percent.⁶

JPEC proposes to refinance three 5 percent RUS notes with CoBank, which have a total principal balance of \$9,403,475. The refinancing of the RUS secured debt is permitted by RUS under Article II, Section 2.02, of the RUS Mortgage.⁷ CoBank's offer to refinance the three RUS notes at a fixed interest rate of 4.5 percent expires January 15, 2012.⁸ To facilitate closing the new loan by that date, JPEC has requested

³ Application, Exhibit 3, page 1.

⁴ Id.

⁵ Id.

⁶ Id.

⁷ Application, Exhibit 1, page 2.

⁸ See Informal Conference Memorandum, December 22, 2011.

the Commission approve and rule on its petition for refinancing on or before January 6, 2012.⁹

JPEC proposes to execute one note in conjunction with the borrowing from CoBank at a fixed interest rate of 4.50 percent. The new CoBank note will be amortized over a period of 22.76 years and the principal repayment schedule will match the consolidated principal payments of the refinanced RUS notes. This will decrease JPEC's administration while, at the same time, not increase principal debt service.¹⁰

JPEC provided a cash flow analysis based on the \$9,403,475 amount that indicates it could save \$1,686,899. The net present value of the cash flow savings was provided as part of the analysis prepared by CoBank for JPEC. CoBank determined that the savings from refinancing would result in a positive net present value cash flow of \$999,570.¹¹

The Commission has reviewed the proposed refinancing and finds JPEC's proposal to be reasonable. JPEC has determined that it can refinance a portion of its RUS debt at a lower effective interest rate and experience cash flow savings over the period of the loan. The Commission commends JPEC for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

⁹ Id. Because it has fixed the amount for the CoBank loan, JPEC expects the actual payoff to be very close to \$9,403,475. In the event the actual payoff of the RUS loans is different, JPEC proposes to pay any amount over the proposed amount from internally generated funds

¹⁰ Application, Exhibit 1, page 2.

¹¹ Id.

The final amounts of the RUS payoff and the new CoBank loan will not be known until the refinancing transaction is finalized. Therefore, JPEC should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, JPEC should provide an updated version of Exhibit 1, Tab 2, pages 2 through 6, 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 JPEC's application. We note that JPEC 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 JPEC, 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. JPEC 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, JPEC should notify the Commission in writing of the exact amount of the new CoBank loan. JPEC should include with the notice an updated version of Exhibit 1, Tab 2, pages 2 through 6, 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, JPEC 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 JPEC's application.

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

IT IS THEREFORE ORDERED that:

1. JPEC is authorized to borrow up to \$9,403,475, 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 JPEC's application.

2. JPEC shall execute the CoBank loan documents as authorized herein.

3. JPEC 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

ENTERED *PA*
DEC 28 2011
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Cason D. Brumwell
Executive Director

Melissa D Yates
Attorney
Denton & Keuler, LLP
555 Jefferson Street
P. O. Box 929
Paducah, KENTUCKY 42002-0929