

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OWEN ELECTRIC COOPERATIVE, INC. FOR AUTHORIZATION TO BORROW UP TO \$29,500,000 FROM COBANK, EXECUTE THE NECESSARY NOTE, AND PREPAY RURAL UTILITIES SERVICE NOTES OF THE SAME AMOUNT)	CASE NO.
)	2017-00036
)	
)	

ORDER

On January 6, 2017, Owen Electric Cooperative, Inc. ("Owen") filed an application seeking Commission authority to execute a note to CoBank in an amount up to \$29,500,000.¹ Owen responded to one request for information issued by Commission Staff. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Owen intends to use the proceeds from the proposed CoBank loan to refinance and discharge all of its outstanding indebtedness to the Rural Utilities Service ("RUS"). The refinancing of the RUS secured debt is permitted by RUS under Article II, Section 2.02, of the RUS mortgage.² The outstanding RUS balance consists of debt with interest rates varying from 2.50 percent to 5.375 percent.³ Owen proposes to

¹ Application at paragraph 6.

² *Id.*, Exhibit D, page 16 of 66.

³ *Id.*, Exhibit A, page 2 of 4. Two of Owen's RUS notes are for variable interest rates. Absent the proposed refinancing, Owen would have converted these notes to a 2.50 percent fixed interest rate. The analysis of cash flows and interest savings assumes a 2.50 percent fixed interest rate for these notes.

refinance seven RUS loans in the aggregate amount of approximately \$29 million⁴ with a fixed interest rate of 3.63 percent under the CoBank program.⁵ CoBank's offer to refinance the RUS notes at a fixed interest rate of 3.63 percent expires March 31, 2017.⁶ Owen has requested an Order by March 3, 2017.⁷

Owen proposes to execute one note in conjunction with the borrowing from CoBank.⁸ The new CoBank note will have a principal repayment schedule the same as the consolidated principal payments of the existing RUS notes.⁹ The weighted average life of the new CoBank note will be 12.85 years, which is equal to the weighted average remaining life of the RUS notes selected for refinancing.¹⁰ Owen provided a cash flow analysis which indicates that through the refinancing it would save \$2,463,986 over the life of the proposed loan.¹¹ Owen determined that the net present value ("NPV") of the interest savings is \$1,812,601 at the effective interest rate of 3.63 percent.¹² Owen states that the legal fees to execute the proposed note with CoBank will not be

⁴ Application, Exhibit C, page 2 of 4, and Owen's Response to Commission Staff's Initial Request for Information ("Staff's First Request"), Item 2, page 3 of 3. The balance of the loans to be refinanced at November 2016 was \$29,251,585. The projected balance of the notes as of March 31, 2017, is \$28,965,674.

⁵ Application at paragraph 6.

⁶ *Id.*

⁷ *Id.* at 3.

⁸ *Id.* at paragraph 6.

⁹ *Id.*, Exhibit A, page 2 of 4.

¹⁰ Owen's Response to Staff's First Request, Item 2.b.

¹¹ Application, Exhibit A, page 3 of 4.

¹² Owen's Response to Staff's First Request, Item 2.e., Attachment NPV.

significant and will not materially affect the NPV of its estimated interest savings; CoBank will not charge fees or expenses related to closing the loan.¹³

The Commission has reviewed the proposed refinancing and finds Owen's proposal to be reasonable, due to the lower effective interest rate and cash flow savings Owen would see over the period of the loan. The Commission commends Owen 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, Owen should provide the Commission with the exact amount of the new CoBank loan within ten days of finalizing the transaction. In addition, Owen should provide an updated version of Exhibit A, page 4 of 4, of its application reflecting the cash flow analysis of 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 Owen, 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. Owen 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, Owen should notify the Commission in writing of the exact amount of the new CoBank loan. Owen

¹³ Owen's Response to Staff's First Request, Item 4.

should include with the notice an updated version of Exhibit A, page 4 of 4, from its application 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, Owen should file with the Commission one copy in paper medium of the loan documents.

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

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

IT IS THEREFORE ORDERED that:

1. Owen is authorized to borrow from CoBank up to \$29,500,000, but no more than the total amount needed to pay off the RUS notes proposed to be refinanced as identified in the application. The loan maturity date and interest rate shall be in accordance with the CoBank refinancing program as described in Owen's application.

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

3. Owen 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
FEB 24 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2017-00036

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