

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JACKSON ENERGY COOPERATIVE,)	
CORPORATION FOR AUTHORIZATION TO BORROW)	CASE NO.
\$27,000,000 FROM COBANK, EXECUTE THE)	2017-00112
NECESSARY NOTE, AND PREPAY RURAL UTILITIES)	
SERVICE NOTES OF THE SAME AMOUNT)	

ORDER

On March 1, 2017, Jackson Energy Cooperative Corporation (“Jackson Energy”) filed an application seeking Commission authority to execute a note to CoBank in an amount up to \$27,000,000 to prepay qualifying Rural Utilities Service (“RUS”) notes of the same amount.¹ Jackson Energy responded to one request for information issued by Commission Staff (“Staff”). There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Jackson Energy 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 RUS debt proposed to be refinanced by Jackson Energy consists of 12 notes in the aggregate amount of approximately \$27,000,000, with interest rates varying from 4.125 percent to 5.000 percent.³ Jackson

¹ Application at paragraph 6.

² *Id.*, Exhibit D, page 16 of 49.

³ *Id.*, Exhibit B, page 6 of 9.

Energy proposes to refinance the 12 RUS notes with a fixed interest rate of 3.47 percent under the CoBank program.⁴ CoBank's offer to refinance the RUS notes at a fixed interest rate of 3.47 percent expires May 31, 2017.⁵ Jackson Energy has requested an Order by March 31, 2017.⁶

Jackson Energy proposes to execute one note in conjunction with the borrowing from CoBank.⁷ The new CoBank note will have a principal repayment schedule which will shorten the tenure of the loan but will modestly increase Jackson Energy's debt service obligations. Jackson Energy stated that this increase will not have a material impact on Jackson Energy's overall cash flow.⁸ The weighted average life of the new CoBank note will be 8.20 years compared to the weighted average life of 11.60 years of the RUS notes selected for refinancing.⁹ Jackson Energy provided a cash-flow analysis which indicates that the refinancing would save approximately \$6,658,012 over the life of the proposed loan.¹⁰ Jackson Energy determined that the net present value ("NPV") of the interest savings is \$1,909,869 at the effective interest rate of 4.64

⁴ Application at paragraph 6.

⁵ *Id.*, cover letter.

⁶ *Id.*, page 1. In Response to Commission Staff's First Request for Information (Staff's First Request"), Item 2, Jackson Energy stated that after conferring with CoBank, it has determined that the latest date that it can receive approval of its proposed financing in order to close by May, 18, 2017, would be April 14, 2017.

⁷ *Id.* at paragraph 6.

⁸ *Id.*, Exhibit A, page 2 of 4.

⁹ *Id.*

¹⁰ *Id.*, Exhibit A, page 3 of 4.

percent.¹¹ Jackson Energy states that the legal fees to execute the proposed note with CoBank will not be 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.¹²

The Commission has reviewed the proposed refinancing and finds Jackson Energy's proposal to be reasonable, due to the lower effective interest rate and cash-flow savings Jackson Energy would see over the period of the loan. The Commission commends Jackson Energy 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, Jackson Energy should provide the Commission with the exact amount of the new CoBank loan within ten days of finalizing the transaction. In addition, Jackson Energy 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 Jackson Energy, 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

¹¹ *Id.* In response to Staff's First Request, Item 3.e., Attachment NPV, Jackson Energy provided the net present value of the refinancing of \$2,693,545, based on the discount rate on the new debt of 3.47 percent.

¹² Jackson Energy's Response to Staff's First Request, Item 5.

that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Jackson Energy 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, Jackson Energy should notify the Commission in writing of the exact amount of the new CoBank loan. Jackson Energy 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, Jackson Energy 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 Jackson Energy's application.

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

IT IS THEREFORE ORDERED that:

1. Jackson Energy is authorized to borrow from CoBank up to \$27,000,000, 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 Jackson Energy's application.

2. Jackson Energy shall execute the CoBank loan documents as authorized herein.

3. Jackson Energy 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:


Executive Director

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