

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BLUE GRASS ENERGY)	
COOPERATIVE CORPORATION FOR APPROVAL)	
TO EXECUTE NEW PROMISSORY NOTES AND)	
OTHER LOAN DOCUMENTS EVIDENCING THE)	
ASSUMPTION OF ALL LIABILITIES OF ITS)	CASE NO.
PREDECESSORS, BLUE GRASS ENERGY)	2002-00351
COOPERATIVE CORPORATION AND HARRISON)	
COUNTY RURAL ELECTRIC COOPERATIVE)	
CORPORATION, PURSUANT TO KRS 278.300(1))	

O R D E R

On September 25, 2002, Blue Grass Energy Cooperative Corporation (Blue Grass) applied for Commission approval to execute new promissory notes and other loan documents to evidence the assumption of notes and loans originally owed by the former Blue Grass Energy Cooperative Corporation (BGECC) and Harrison County Rural Electric Cooperative Corporation (Harrison County). The Commission approved the consolidation of BGECC and Harrison County to form Blue Grass in Case No. 2001-00246¹ and the consolidation became effective on January 1, 2002.

On October 8, 2002, the Commission informed Blue Grass that its application was deficient, and would not be considered filed until the filing deficiencies were cured. On November 1, 2002 and December 16, 2002, Blue Grass filed supplemental information. The December 16, 2002 filing included a request to deviate from the filing

¹ Case No. 2001-00246, Application of Blue Grass Energy Cooperative Corporation and Harrison County Rural Electric Cooperative Corporation for an Order Approving Consolidation of the Two Named Rural Electric Cooperatives and Reduction of Residential Rates of Harrison RECC, final Order dated October 4, 2001.

requirements of 807 KAR 5:001, Section 11(2)(b). On January 23, 2003, the Commission granted Blue Grass's request to deviate and declared the application filed as of January 23, 2003.

At the time of the consolidation, BGECC and Harrison County were indebted to the Rural Utilities Service (RUS) and the National Rural Utilities Cooperative Finance Corporation (CFC). Blue Grass states in its application that RUS and CFC require it to execute new promissory notes and other loan documents to evidence the assumption of the BGECC and Harrison County loans by Blue Grass. Blue Grass also states that the new notes and loan documents do not modify the terms of the existing loans and that they serve the purpose of redocumenting the loans in the name of Blue Grass. Blue Grass notes that, pursuant to KRS 278.300(10), the Commission's approval is not required where the evidences of indebtedness are subject to the supervision or control of the federal government or any agency thereof, and that the RUS is such an agency.

Blue Grass has provided information showing that the face amount of the debt owed to RUS is \$85,654,286 and the face amount of the debt owed to CFC is \$14,878,979.² Blue Grass also provided information showing that as of December 31,

² Response to the Commission Staff's First Data Request dated February 3, 2003, Item 1. The face amount of BGECC's debt to RUS is \$60,150,000, while the face amount of the debt owed to CFC is \$10,181,908. The face amount of Harrison County's debt to RUS is \$25,504,286, while the face amount of the debt owed to CFC is \$4,697,071.

2002, the outstanding balance of the RUS debt is \$58,999,076 and the outstanding balance of the CFC debt is \$10,719,226.³

The Commission, after consideration of the evidence of record and being advised, finds that:

1. The assumption by Blue Grass of the loans owed by its predecessor cooperatives, BGECC and Harrison County, is for lawful objects within the corporate purposes of Blue Grass, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonable, necessary and appropriate for such purposes.

2. Blue Grass is capable of executing its notes as security for the loans as stated in its application.

3. Blue Grass's execution of new promissory notes and other loan documents to evidence the assumption of the RUS and CFC loans should not modify the terms of these existing loans in any substantive manner and should only serve the purpose of redocumenting the loans in the name of Blue Grass. If, during the finalization of the new promissory notes and other loan documents, substantive changes occur, Blue Grass should, within 10 days of its identification of those changes, make the appropriate filing seeking Commission approval of the changes.

4. Blue Grass should include in its monthly financial report to the Commission the current interest rate on its outstanding variable rate loans.

³ Id. The outstanding balance of BGECC's debt to RUS is \$47,546,001, while the outstanding balance of the debt owed to CFC is \$7,494,216. The outstanding balance of Harrison County's debt to RUS is \$11,453,075, while the outstanding balance of the debt owed to CFC is \$3,225,010.

5. As the issuance of securities or evidences of indebtedness subject to the control of a federal governmental agency does not require Commission approval, KRS 278.300(10), and as the RUS is an agency of the federal government, no action on Blue Grass s proposal to assume the outstanding RUS loans is required.

IT IS THEREFORE ORDERED that:

1. Blue Grass is authorized to issue its promissory notes and other loan documents to evidence its assumption of BGECC s and Harrison County s loans with CFC, subject to the provisions and terms contained within its application.

2. Blue Grass is authorized to execute its notes as security for the loans authorized herein.

3. Blue Grass shall comply with all matters set out in Findings 3 and 4 as if they were individually so ordered.

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.

Done at Frankfort, Kentucky, this 20th day of February, 2003.

By the Commission

ATTEST:

Deputy W. H. Fowler
Executive Director