

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORP. FOR	)	
AUTHORIZATION TO BORROW \$6,281,789	)	CASE NO.
FROM COBANK AND EXECUTE NECESSARY	)	2004-00091
NOTES AND TO PREPAY RURAL UTILITIES	)	
SERVICE 5% NOTES OF SAME AMOUNT	)	

O R D E R

On March 22, 2004, Kenergy Corp. (“Kenergy”) filed its application for authority to execute notes to the National Bank for Cooperatives (“CoBank”) in the amount of \$6,281,789.<sup>1</sup> Kenergy intends to use the proceeds from the CoBank loan to refinance and discharge part of its indebtedness to the Rural Utilities Service (“RUS”) in order to obtain a lower interest rate and savings of approximately \$473,026 over the life of the loan.<sup>2</sup> Kenergy has indicated that CoBank has approved the proposed loan.<sup>3</sup>

As of February 29, 2004, Kenergy’s outstanding balance of RUS debt was \$79,680,149.<sup>4</sup> The outstanding balance of RUS debt is made up of 2 percent fixed rate debt, 5 percent fixed rate debt, and other variable or fixed rate debt. Kenergy also has long-term debt with the Federal Financing Bank (“FFB”), the National Rural Utilities

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<sup>1</sup> Application at 2.

<sup>2</sup> Application, Exhibit 2, Attachment B, page 8 of 27.

<sup>3</sup> Application, Exhibit 2, Attachment B, pages 1 through 4 of 27.

<sup>4</sup> Application, Exhibit 1, Attachment A, pages 1 through 3 of 3. The outstanding balance of the RUS debt reflects the sum of lines 1 through 47 adjusted for the cushion of credit balance with RUS shown on line 55.

Cooperative Finance Corporation (“CFC”), and CoBank. Kenergy’s outstanding balance of FFB debt was \$6,000,000;<sup>5</sup> its outstanding balance of CFC debt was \$3,349,657;<sup>6</sup> and its outstanding balance of CoBank debt was \$19,310,046.<sup>7</sup>

Because of historically low interest rates, CoBank has developed a debt refinancing program that is being made available to electric cooperatives. Under this program, eligible RUS 5 percent fixed rate debt is refinanced with CoBank long-term debt. RUS determines a payoff amount that is comprised of principal and interest due on the debt eligible to be refinanced. The cooperative and CoBank work together to determine the most beneficial loan configuration in order to maximize the potential savings. The new CoBank loan can have either a fixed or variable interest rate initially, and the interest rate is eligible for the conversion options available on any other CoBank loan. As part of the analysis performed by CoBank, a cash flow analysis and a net present value analysis of the cash flows are prepared.

Of its total outstanding RUS debt, Kenergy proposes to refinance \$6,281,789 under the CoBank program. Kenergy has fixed this amount with CoBank through April 9, 2004.<sup>8</sup> Kenergy proposes to execute four notes in conjunction with the borrowing

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<sup>5</sup> Id. The outstanding balance of FFB debt is on line 48.

<sup>6</sup> Id. The outstanding balance of CFC debt reflects the sum of lines 65 through 70.

<sup>7</sup> Id. The outstanding balance of CoBank debt reflects the sum of lines 56 through 64.

<sup>8</sup> Application, Exhibit 2, Attachment B, pages 1 through 4 of 27. Because it has fixed the amount for the CoBank loan, Kenergy expects the actual payoff to be very close to \$6,281,789. In the event the actual payoff of the RUS loans is different, Kenergy proposed to adjust any difference through its line of credit agreement with CoBank. See Application at 2.

from CoBank at fixed interest rates ranging between 4.64 and 4.97 percent. The four new CoBank loans would be for periods ranging between 11 and 14 years.<sup>9</sup> Kenergy provided a cash flow analysis based on the \$6,281,789 amount that indicates it could save \$473,026 over the life of the loans.<sup>10</sup> The net present value of the cash flow savings was provided as part of the analysis prepared by CoBank for Kenergy. CoBank determined that the four fixed interest rates would result in a positive net present value cash flow of \$270,015.<sup>11</sup>

The Commission has reviewed the proposed refinancing and finds Kenergy's proposal reasonable. Kenergy has determined that it can refinance a portion of its RUS 5 percent fixed rate debt at a lower effective interest rate and experience cash flow savings over the periods of the loans. The Commission commends Kenergy 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, Kenergy should provide the Commission with the exact amount of each new CoBank loan within 10 days of finalizing the transaction. In addition, Kenergy should provide an updated version of Exhibit 2, Attachment 2 of its application reflecting the cash flow and the net present value analyses of the cash flow for each new CoBank loan.

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<sup>9</sup> Application at 2.

<sup>10</sup> Application, Exhibit 2, Attachment B, page 8 of 27.

<sup>11</sup> Id., page 7 of 27.

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 Kenergy's application. We note that Kenergy assisted this processing by filing its application in compliance with the applicable filing requirements and 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 loans from CoBank are for lawful objects within the corporate purposes of Kenergy, are 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, are reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Kenergy is capable of executing its notes as security for the loans as stated herein.

3. Within 10 days of finalizing the refinancing transaction, Kenergy should notify the Commission in writing of the exact amount of each new CoBank loan. Kenergy should include with the notice an updated version of Exhibit 2, Attachment 2 from its application reflecting the savings based on the actual amount of each new CoBank loan.

4. Within 10 days of the execution of the new CoBank loan documents, Kenergy should file with the Commission three copies of the loan documents.

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

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

IT IS THEREFORE ORDERED that:

1. Kenergy is authorized to borrow up to \$6,281,789, 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 Kenergy's application.

2. Kenergy is authorized to execute the loan documents as authorized herein.

3. Kenergy shall comply with all matters set out in Findings 3 through 6 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 26<sup>th</sup> day of March, 2004.

By the Commission

ATTEST:

  
Executive Director