

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JACKSON PURCHASE ENERGY	)	
CORPORATION FOR AUTHORIZATION TO REFINANCE	)	CASE NO.
FROM COBANK AND EXECUTE NECESSARY NOTES	)	2010-00229

O R D E R

On June 8, 2010, Jackson Purchase Energy Corporation (“JPEC”) filed its application for authority to execute notes to CoBank, ACB (“CoBank”) in the amounts of \$5,921,753 and \$3,353,647.<sup>1</sup> By letter dated June 14, 2010, the Commission notified JPEC that its refinancing application was rejected as deficient because it did not include the information necessary to satisfy the filing requirements contained in 807 KAR 5:001, Sections 6(4), 6(6) and 11(2)(b).

In response to the Commission’s deficiency letter, on June 18, 2010, JPEC filed an amended application containing the information cited in the June 14, 2010 letter. The Commission accepted the information and considered the application filed as of June 18, 2010.

JPEC intends to use the proceeds from the CoBank loans to refinance and discharge part of its indebtedness to the Rural Utilities Service (“RUS”). Due to the lower interest rates offered by CoBank, JPEC projects lifetime cash flow savings over the lives of both loans. There are two proposed CoBank loans due to the differing maturities on the RUS debt. JPEC intends to match the principal payments on the CoBank loans with those that would have been paid on the RUS loans; thus, two loans

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<sup>1</sup> Application, page 2.

are required. JPEC has indicated that CoBank has not approved or issued a commitment for the proposed loans.<sup>2</sup>

As of May 31, 2010, JPEC's outstanding balance of RUS debt was \$40,858,054.<sup>3</sup> The outstanding balance of RUS debt is made up of debt with interest rates varying from 2.91 percent to 5.53 percent. JPEC also has outstanding long-term debt with CoBank in the amount of \$4,285,902 at interest rates varying from 3.87 percent (variable) to 4.78 percent.<sup>4</sup>

Of its total outstanding RUS debt, JPEC proposes to refinance \$5,921,753 and \$3,353,647, respectively, in two notes under the CoBank program. JPEC has fixed these amounts with CoBank through July 20, 2010; however, JPEC stated it must have all required documentation 10 days prior to that date in order to complete all legal requirements for procuring the loans.<sup>5</sup> JPEC proposes to execute one note in conjunction with the initial borrowing of \$5,921,753 from CoBank at a fixed interest rate equal to or less than 4.69 percent. The new CoBank loan would be amortized for a period of 16 years.<sup>6</sup> The average remaining life of the RUS notes selected for repayment is 16.35 years. JPEC provided a cash flow analysis based on the \$5.9 million loan amount which indicates it could save \$498,743 over the life of the loan.<sup>7</sup> The net present value of the cash flow savings was provided as part of the analysis

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<sup>2</sup> Exhibit 1, Page 2.

<sup>3</sup> Exhibit 6.

<sup>4</sup> Id.

<sup>5</sup> Per Informal Conference Call, June 23, 2010.

<sup>6</sup> Application, page 2.

<sup>7</sup> Exhibit 1, Page 3.

prepared by CoBank for JPEC. CoBank determined that the fixed interest rate would result in a positive net present value cash flow of \$329,613.<sup>8</sup>

JPEC proposes to execute a second note in conjunction with the borrowing of \$3,353,647 from CoBank contingent upon receiving a fixed interest rate of 4.9 percent or lower.<sup>9</sup> The new CoBank note would be amortized for a period of 19 years.<sup>10</sup> The average remaining life of the RUS notes selected for repayment is 18.52 years.<sup>11</sup> JPEC provided a cash flow analysis based on the \$3.3 million loan amount with a 4.9 percent interest rate which indicates it could save \$367,544 over the life of the loan.<sup>12</sup> CoBank determined that the fixed interest rate would result in a positive net present value cash flow of \$215,396.<sup>13</sup>

The Commission has reviewed the proposed refinancing and finds JPEC's proposal reasonable. JPEC has determined that it can refinance a portion of its RUS five percent fixed-rate debt at a lower effective interest rate and experience cash-flow savings over the period of the loans. The Commission commends JPEC 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, JPEC should provide the

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<sup>8</sup> Id.

<sup>9</sup> Application, Page 2.

<sup>10</sup> Id.

<sup>11</sup> Exhibit 3, Page 2.

<sup>12</sup> Id. at Tab 1, Page 1.

<sup>13</sup> Id.

Commission with the exact amount of the new CoBank loans within 10 days of finalizing the transactions. In addition, JPEC should provide an updated version of Exhibits 1 and 3 of its application reflecting the cash flow and the net present value analyses of the cash flow for the new CoBank loans.

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 JPEC, 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. JPEC should execute its notes as security for the proposed loans in the manner described in its application.

3. Within 10 days of finalizing the refinancing transactions, JPEC should notify the Commission in writing of the exact amount of the new CoBank loans. JPEC should include with the notice an updated version of Exhibits 1 and 3 from its amended application reflecting the savings based on the actual amounts of the new CoBank loans.

4. Within 10 days of the execution of the new CoBank loan documents, JPEC should file with the Commission three copies of the loan documents for each of the loans.

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

6. The terms and conditions of the new CoBank loans 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 \$5,921,753 on the first note and \$3,353,647 on the second note from CoBank but no more than the total RUS payoff for each loan. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in JPEC's application.

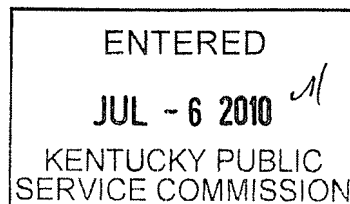
2. JPEC shall execute the CoBank loan documents as authorized herein.

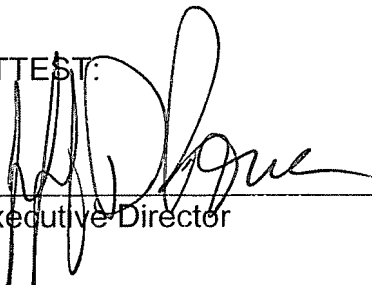
3. JPEC shall comply with all matters set out in Findings 3 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to Findings 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:  
  
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