

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORP. FOR)	
AUTHORIZATION TO BORROW \$4,394,503 FROM)	
COBANK AND EXECUTE NECESSARY NOTES)	CASE NO.
AND TO PREPAY RURAL UTILITIES SERVICE)	2011-00447
FIVE PERCENT NOTES OF THE SAME AMOUNT)	

O R D E R

On November 14, 2011, Kenergy Corp. ("Kenergy") filed an application for authority to execute notes to CoBank, ACB ("CoBank") in the amount of \$4,394,503.¹ Kenergy intends to use the proceeds from the CoBank loan to prepay outstanding notes of the same amount with the Rural Utilities Service ("RUS"). Due to the lower interest rate offered by CoBank, Kenergy projects a lifetime cash flow savings of approximately \$1,564,804 resulting from the proposed prepayment.²

As of September 30, 2011, Kenergy's outstanding balance of RUS debt was \$103,659,106, at interest rates ranging from 2.125 to 5.125 percent. Its outstanding CoBank debt was \$25,118,281 at interest rates of 4.39 to 6.24 percent.

Kenergy proposes to prepay \$4,394,503 of its outstanding five percent RUS long-term debt under the CoBank program.³ Such prepayment is permitted by RUS

¹ Application at 2.

² Id., at 3.

³ Kenergy expects the actual payoff to be very close to \$4,394,503. It proposes to adjust any difference through its line of credit agreement with CoBank, which will allow the new CoBank note to remain at \$4,394,503.

under Article II, Section 2.02, of the RUS mortgage. Kenergy has the amount of the proposed financing as well as its rate of interest fixed with CoBank through January 8, 2012.⁴ Kenergy has indicated that it hopes to close the proposed transaction by December 30, 2011 and has requested that the Commission expedite its review of the application and issue an Order no later than December 21, 2011.⁵

Kenergy proposes to execute one note in conjunction with its borrowing from CoBank at a fixed interest rate of 3.15 percent. The new CoBank note would be amortized over a period of 10 years. It would allow Kenergy to pay off the RUS notes earlier than their average maturity dates, which are approximately 17 years from now.⁶

Kenergy provided a cash flow analysis based on the \$4,394,503 amount which indicates it could save \$1,564,804.⁷ The net present value of the cash flow savings was provided as part of the analysis prepared for Kenergy by CoBank. The lower fixed interest rate would result in a positive net present cash flow of \$512,733.⁸

The Commission has reviewed the proposed prepayment and finds Kenergy's proposal to be reasonable. Kenergy determined that it can prepay a portion of its RUS debt at a lower effective interest rate and experience cash flow savings over the term of the loan. The Commission commends Kenergy for taking advantage of the financing

⁴ Id., Attachment B of Exhibit 2.

⁵ Id., at 1.

⁶ Id., Attachment B of Exhibit 2.

⁷ Id., at 3.

⁸ Id.

alternatives available to it, thereby securing savings for itself and its member-customers.

The final amounts of the RUS payoff and the new CoBank loan will not be known until the proposed transaction is finalized. Therefore, Kenergy should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, Kenergy should provide an updated version of Exhibit 2, Attachment B, of its application reflecting the cash flow and net present value analyses of the cash flow of the new CoBank loan if the final amounts differ from the amounts included in its application.

In recognition of the volatility of interest rates and the potential impact that changes therein could have on the benefits of the CoBank refinancing program, the Commission has expedited the process of Kenergy's application. We note that Kenergy assisted in this processing by filing its application in compliance with the applicable filing requirements and providing the cash flow and net present analyses with its application.

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 Kenergy, is necessary and appropriate for, and consistent with the proper performance by Kenergy 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. Kenergy should execute its note as security for the proposed loan in the manner described in its application.

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

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

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

6. The terms and conditions of the new CoBank loan 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 \$4,394,503, 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.

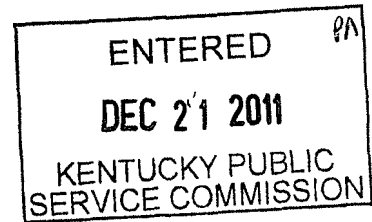
2. Kenergy shall execute the CoBank loan documents as authorized herein.

3. Kenergy shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

4. Any documents filed pursuant to finding paragraphs 3 and 4 herein shall reference this case number and shall be retained in Kenergy'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:

Carson D. Gammill for
Executive Director

Case No. 2011-00447

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