

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BLUE GRASS )  
ENERGY COOPERATIVE CORPORATION FOR )  
AUTHORIZATION TO BORROW \$60,269,116 )  
FROM THE NATIONAL RURAL UTILITIES ) CASE NO.  
COOPERATIVE FINANCE CORPORATION, ) 2016-00291  
EXECUTE THE NECESSARY NOTE, AND )  
PREPAY RURAL UTILITIES SERVICE NOTES IN )  
THE AMOUNT OF \$70,269,116 )

ORDER

On August 12, 2016, Blue Grass Energy Cooperative Cooperation (“Blue Grass”) filed an application seeking Commission authority to execute a note to the National Rural Electric Cooperative Finance Corporation (“CFC”) in an amount up to \$60,269,116.<sup>1</sup> On August 19, 2016, we issued Commission Staff’s First Request for Information (“Staff’s First Request”) to Blue Grass to clarify certain issues in this case. Blue Grass filed its responses to Staff’s First Request on August 24, 2016. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Blue Grass intends to use the proceeds from the proposed CFC loan to refinance and discharge \$70,269,116 of its outstanding indebtedness to the Rural Utilities Service (“RUS”). The refinancing of the RUS secured debt is authorized pursuant to 7 CFR Part 1786.<sup>2</sup> The outstanding RUS balance consists of fixed-rate debt with interest rates

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<sup>1</sup> Application, paragraph 7.

<sup>2</sup> *Id.*, Exhibit 3 at 1.

varying from 2.38 percent to 6.0 percent.<sup>3</sup> Blue Grass proposes to refinance 21 RUS loans in the aggregate amount of \$70,269,116 with a single CFC note in the amount of \$60,269,116 at a fixed interest rate of 2.95 percent.<sup>4</sup> CFC's offer to refinance the RUS notes expires October 31, 2016.<sup>5</sup> Blue Grass requests that a decision be rendered by September 9, 2016, in order for it to close the transaction by September 30, 2016.<sup>6</sup>

One fixed-rate RUS note has a lower interest rate than the rate under the refinancing. However, Blue Grass advised the Commission that RUS does not allow selected notes to be refinanced, and the entire RUS portfolio to which this note belongs must be refinanced in order to refinance any of the notes.<sup>7</sup> The proposed CFC note will have a principal repayment tenor of 17 years, with the principal repayment schedule being approximately eight years less than the longest maturity date of the RUS notes being refinanced.<sup>8</sup> Blue Grass provided a cash flow analysis which indicates that the refinancing would save \$19,109,012 over the life of the proposed loan, resulting in a positive net present value ("NPV") cash flow of \$5,093,681, including legal fees.<sup>9</sup> Based on the Commission's own calculations, we find that the proposed CFC refinancing

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<sup>3</sup> Application, Exhibit 3 at 3.

<sup>4</sup> Application, paragraph 7 and Blue Grass's Response to Staff's First Request, Item 1. In paragraph 8 of the Application, Blue Grass indicated that it expects the actual payoff to be \$70,269,116. The approximate \$10,000,000 difference between the existing RUS loans and the proposed CFC loan will be made up by liquidating temporary investments which yield less than the RUS loans being refinanced.

<sup>5</sup> Blue Grass's Response to Staff's First Request, Item 2.

<sup>6</sup> Application at 1.

<sup>7</sup> Blue Grass' Response to Staff's First Request, Item 3.c.

<sup>8</sup> *Id.*, Item 3.b. and Exhibit 4 Amended.

<sup>9</sup> *Id.*, Item 4.c.

would result in a positive NPV cash flow of \$8,015,533 at an effective interest rate of 2.95 percent.<sup>10</sup>

The Commission has reviewed the proposed refinancing and finds Blue Grass's proposal to be reasonable, due to the lower effective interest rate and cash flow savings Blue Grass would see over the period of the loan. The Commission commends Blue Grass 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, the legal fees, and the new CFC loan will not be known until the refinancing transaction is finalized. Therefore, Blue Grass should provide the Commission with the exact amount of the new CFC loan within ten days of finalizing the transaction. In addition, Blue Grass should provide an updated version of the response to Staff's First Request, Item 4, reflecting the cash flow analysis of the new CFC loan.

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

1. The proposed loan from CFC 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, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

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<sup>10</sup> The Commission's NPV calculation includes \$10,000 in legal fees and is based on a 2.95 percent discount rate, which reflects the rate of the new loan. Blue Grass provided a NPV prepared by CFC showing an NPV of \$5,103,284 based on a 4.13 percent discount rate, which reflects the weighted average rate of the RUS notes to be refinanced.

2. Blue Grass 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, Blue Grass should notify the Commission in writing of the exact amount of the new CFC loan. Blue Grass should include with the notice an updated version of Staff's First Request, Item 4.b., reflecting the savings based on the actual amount of the new CFC loan and legal fees.

4. Within ten days of the execution of the new CFC loan documents, Blue Grass should file with the Commission one copy in paper medium and an electronic version of the loan documents.

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

6. The terms and conditions of the new CFC loan should be consistent with the CFC refinancing program as described in Blue Grass's application.

IT IS THEREFORE ORDERED that:

1. Blue Grass is authorized to borrow from CFC up to \$60,269,116 and use up to \$10,000,000 from its temporary investments, 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 CFC refinancing program as described in Blue Grass's application.

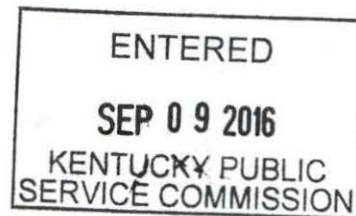
2. Blue Grass shall execute the CFC loan documents as authorized herein.

3. Blue Grass 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 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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