

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE BLUE GRASS ENERGY)	
COOPERATIVE CORPORATION FOR AN ORDER)	
PURSUANT TO KRS 278.300 AND 807 KAR 5:001,)	
SECTION 11, AND RELATED SECTIONS)	CASE NO.
AUTHORIZING THE COOPERATIVE TO OBTAIN)	2006-00167
A LOAN IN THE AMOUNT OF \$525,000.00 FROM)	
THE NATIONAL RURAL UTILITIES COOPERATIVE)	
FINANCE CORPORATION)	

O R D E R

On May 8, 2006, Blue Grass Energy Cooperative Corporation ("Blue Grass") filed its application for authorization to obtain a loan in the amount of \$525,000. The loan will be issued by the National Rural Utilities Cooperative Finance Corporation ("CFC") at either a variable or fixed interest rate. The proposed CFC loan will be for a term of 11 years and will be unsecured. CFC has approved Blue Grass's loan application.

Blue Grass entered into an Energy Conservation Management Services ("ECMS") contract with the Blue Grass Army Depot ("Army Depot") wherein Blue Grass performs work or contracts for work to be performed¹ at the Army Depot which results in energy savings through the updating of electrical equipment, lighting systems, heating and cooling systems, and similar energy savings projects. Blue Grass plans to initially finance the work under the ECMS contract with funds from a short-term CFC line of

¹ Blue Grass has entered into a master contract with W. Frank Harshaw and Associates, Inc. as the subcontractor for the ECMS work at the Army Depot.

credit, and then use the proceeds from the proposed CFC loan to reimburse the line of credit.

Each project performed under the ECMS contract and the Army Depot payment obligations will be detailed in a task order.² The Army Depot pays Blue Grass a monthly principal payment for all completed task orders plus a monthly interest payment billed with an interest rate adder of 0.25 percent added to the monthly CFC interest rate in effect. Blue Grass will also be permitted to charge a 7.00 percent management fee.³

Due to the small level of exposure represented by the \$525,000 loan, CFC was agreeable to the proposed loan being unsecured. Blue Grass will be able to select either a variable or fixed interest rate for the proposed CFC loan at the time funds are advanced. The ECMS contract does not place any restrictions on which interest rate option is selected, and Blue Grass has indicated it would likely base its decision on the interest rate option on how the Army Depot prefers to price the debt.⁴ Blue Grass may be required to purchase loan capital term certificates ("LCTC") in conjunction with the proposed CFC loan. The cost of the LCTC will not be a cost recoverable under the

² The subcontractor will only be performing work as detailed in task orders that are agreed to by the Army Depot. Blue Grass will not be responsible for a financial transaction unless it has agreed to the task order proposed. See Response to the Commission Staff's First Data Request dated May 12, 2006, Item 4(b).

³ Response to the Commission Staff's First Data Request dated May 12, 2006, Item 5(d).

⁴ Id., Item 5(b) and 5(c).

terms of the ECMS contract, but the LCTC will be refunded to Blue Grass upon the total repayment of the loan.⁵

The ownership of the projects completed by Blue Grass remains the property of the Army Depot. As the ECMS contract is for demand-side management-related projects, Blue Grass will not be seeking an amendment to its territorial service boundaries and will not be providing electricity outside its territorial service boundaries.⁶

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

1. The loan from CFC in the amount of \$525,000 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.

2. When Blue Grass draws down funds from the CFC loan, it should include in its corresponding monthly financial report to the Commission the current outstanding balance on the CFC loan before the draw down, the amount to be drawn down from the CFC loan, and the interest rate on the amount being drawn down.

3. Blue Grass should include in its annual financial report to the Commission a separate disclosure on the status of the CFC loan, including the current interest rate

⁵ Id., Item 5(e) and 5(f). Blue Grass estimated that if the LCTC had to be purchased in conjunction with the proposed loan, the required amount would be \$10,500.

⁶ Id., Item 7. The Army Depot is currently an electric customer of Blue Grass. A lighting facility at the Army Depot is within the Blue Grass service territory.

and expense for the ECMS contract project loan and the outstanding balance of the loan.

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

IT IS THEREFORE ORDERED that:

1. Blue Grass is authorized to borrow \$525,000 from CFC for an 11-year period bearing an interest rate as described in the CFC Loan Agreement.

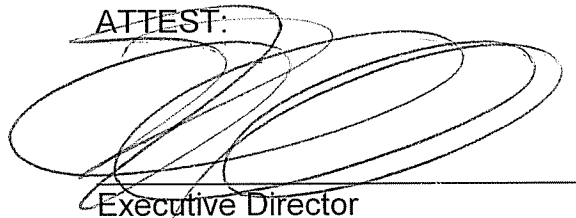
2. Blue Grass shall comply with all matters set out in Findings 2 through 4 as if they were individually so ordered.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities or financing authorized herein.

Done at Frankfort, Kentucky, this 16th day of June, 2006.

By the Commission

ATTEST:



Executive Director