

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH KENTUCKY RURAL)	
ELECTRIC COOPERATIVE CORPORATION FOR)	
AUTHORIZATION TO BORROW \$58,634,282 FROM)	CASE NO.
COBANK AND TO EXECUTE ALL DOCUMENTS)	2016-00040
NECESSARY TO PREPAY RURAL UTILITIES SERVICE)	
NOTES OF THE SAME AMOUNT)	

ORDER

On January 25, 2016, South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") tendered for filing an application seeking Commission authority to execute a note to CoBank in an amount up to \$58,634,282.¹ On February 2, 2016, South Kentucky filed a motion for leave to amend its application, which was granted by Commission Order on February 5, 2016. The application was found deficient and was rejected by letter dated February 12, 2016. On February 16, 2016, South Kentucky submitted additional information which cured the deficiency, and the application was considered filed as of that date. South Kentucky responded to one request for information issued by Commission Staff. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

South Kentucky intends to use the proceeds from the proposed CoBank loan to refinance and discharge part of its outstanding \$63,856,261.93 indebtedness to the Rural Utilities Service ("RUS"). The outstanding RUS balance consists of debt with

¹ Application at paragraph 7.

interest rates varying from 0.125 percent to 5.780 percent. South Kentucky proposes to refinance 12 RUS loans in the aggregate amount of \$58,634,282² with interest rates varying from 4.60 percent to 5.78 percent under the CoBank program.³ The refinancing of the RUS secured debt is permitted by RUS under Article II, Section 2.02, of the RUS Mortgage. CoBank's offer to refinance the RUS notes at a fixed interest rate of 3.55 percent expires April 30, 2016.⁴ South Kentucky has requested an Order by April 15, 2016.⁵

South Kentucky proposes to execute one note in conjunction with the borrowing from CoBank at a fixed interest rate of 3.55 percent.⁶ The new CoBank note will have a principal repayment tenor of 17.8 years, with the principal repayment schedule being 4.2 years less than the consolidated principal payments of the existing RUS notes.⁷ The weighted average life of the new CoBank note will be 9.9 years, which is less than the weighted average remaining life of the RUS notes selected for refinancing of 13.1 years.⁸ South Kentucky provided a cash flow analysis which indicates that through the refinancing it would save \$18,080,872 over the life of the proposed loan.⁹ South

² This amount is the projected principal balance at April 30, 2016, of the RUS loans to be refinanced. The balance of the loans to be refinanced at November 30, 2015, was \$59,115,269.54. Application at paragraph 10.

³ Application, Exhibit 2, Attachment B at 3. In paragraph 10 of the application, South Kentucky indicated that it expects the actual payoff to be very close to \$ 58,634,282.

⁴ Application at paragraph 12.

⁵ *Id.*

⁶ *Id.* at paragraph 7.

⁷ *Id.*

⁸ *Id.*, Exhibit 2, Attachment B at 8.

⁹ *Id.* at 7.

Kentucky determined that the fixed interest rate would result in a positive net present value cash flow of \$8,684,982 at the effective interest rate of 3.55 percent.¹⁰

The Commission has reviewed the proposed refinancing and finds South Kentucky's proposal to be reasonable, due to the lower effective interest rate and cash flow savings South Kentucky would see over the period of the loan. The Commission commends South Kentucky 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, South Kentucky should provide the Commission with the exact amount of the new CoBank loan within ten days of finalizing the transaction. In addition, South Kentucky should provide an updated version of Exhibit 2, Attachment B, page 7, of its application reflecting the cash flow analysis of the new CoBank loan.

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 South Kentucky, 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. South Kentucky should execute its note as security for the proposed loan in the manner described in its application.

¹⁰ South Kentucky's response to Commission Staff's Initial Request for Information, Item 2.

3. Within ten days of finalizing the refinancing transaction, South Kentucky should notify the Commission in writing of the exact amount of the new CoBank loan. South Kentucky should include with the notice an updated version of Exhibit 2, Attachment B, page 7, from its application reflecting the savings based on the actual amount of the new CoBank loan.

4. Within ten days of the execution of the new CoBank loan documents, South Kentucky 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 South Kentucky's application.

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

IT IS THEREFORE ORDERED that:

1. South Kentucky is authorized to borrow from CoBank up to \$58,634,282, 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 CoBank refinancing program as described in South Kentucky's application.

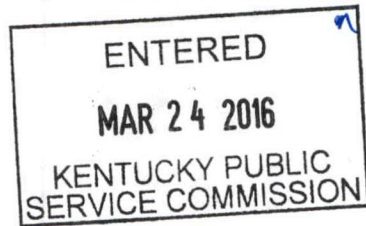
2. South Kentucky shall execute the CoBank loan documents as authorized herein.

3. South Kentucky 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 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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